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United Nations Development
Programme and of the
United Nations Population Fund**

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South-South cooperation

**Extension of the third cooperation framework
for South-South cooperation, 2005-2007, until
31 December 2008***

Note by the Administrator

I. Background

1. In its decision 2005/7, the Executive Board approved the third cooperation framework for South-South cooperation, 2005-2007. To support the activities outlined in the framework, it approved a budget consisting of \$16.5 million in regular ('core') resources and \$11 million in other ('non-core') resources, as indicated in document DP/CF/SSC/3/Rev.1.

2. In implementing the programme, the Special Unit for South-South Cooperation has focused on three key areas: (a) policy development, research, and dialogue, as well as mainstreaming of South-South approaches to development; (b) creation of an enabling environment and mechanisms for expanded South-South business cooperation and technology exchanges for poverty reduction; and (c) fostering the sharing of Southern development knowledge and solutions.

3. Under the third cooperation framework, the Special Unit has played a significant role in establishing mechanisms to support the sharing of innovative development solutions across the South through efforts to expand a network of focal points at the country and regional levels, supporting private sector development through networking among Southern small and medium-sized enterprises and technology exchanges, and supporting South-South policy development and dialogue. The Special Unit intends to continue its work in these and other areas while developing a programme that responds effectively to new and increasing demands for the effective coordination and management of South-South and triangular cooperation at the country, regional and global levels.

*The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.



II. Justification

4. The evaluation of UNDP support for South-South cooperation, which was concluded in October 2007, emphasized the need for a comprehensive corporate strategy for UNDP to respond better to growing demands for enhanced South-South cooperation. UNDP deemed it necessary to delay preparation of that strategy, and the fourth cooperation framework for South-South cooperation (2008-2011), until it had received guidance from the first regular session 2008 of the Executive Board in the course of deliberations on the evaluation report on South-South cooperation and the related management response.

5. The formulation of the fourth cooperation framework in 2008 rather than 2007 would also enable the Special Unit to obtain guidance from the decisions reached by Member States during deliberations on the subject by the sixty-second session of the General Assembly and the United Nations triennial comprehensive policy review process.

6. At its fifteenth session 2007, the High-level Committee on South-South Cooperation recognized the need to strengthen South-South cooperation and therefore invited the General Assembly to consider convening a high-level United Nations conference on South-South cooperation on the occasion of the thirtieth anniversary of the Buenos Aires Plan of action in 2008, or no later than the first semester of 2009. Since the proposed convening of a United Nations conference on South-South cooperation is likely to have considerable impact on the work of UNDP in general and the Special Unit in particular, it is important that the fourth cooperation framework be formulated after the sixty-second session of the General Assembly has taken a decision and provided some guidance on the date, nature and modalities of the proposed conference.

7. The sixty-second session of the General Assembly also has before it the report of the Secretary General on the state of South-South cooperation and a component on South-South cooperation in the report on the triennial comprehensive policy review. Decisions resulting from the deliberations on those reports are also likely to point to the needs UNDP ought to consider acting on in the course of implementing the fourth cooperation framework (2008-2011).

III. Objectives

8. During the proposed one-year extension period, the objectives and activities of the third cooperation framework for South-South cooperation, 2005-2007, would continue, and programme activities supported by the Special Unit would be consistent with the focus areas of the third cooperation framework as elaborated in document DP/CF/SSC/3/Rev.1.

9. Also during the period of the extension, the Special Unit would begin to take action on the recommendations contained in the UNDP evaluation and in the UNDP strategic plan, 2008-2011, as well as responding to the decisions of the General Assembly, the High-level Committee on South-South Cooperation and the Executive Board with respect to South-South cooperation. The Special Unit would also continue to align its work with the mandates contained in the Buenos Aires Plan of Action, the New Directions Strategy for Technical Cooperation among Developing

Countries, and the Revised Guidelines for the Review of Policies and Procedures Concerning Technical Cooperation among Developing Countries.

10. In addition to preparing a results-oriented fourth cooperation framework, the Special Unit would respond to the recommendations contained in the UNDP evaluation by developing corporate guidance for support to South-South cooperation, leveraging the capacities of UNDP and other United Nations organizations to enhance the contribution of South-South cooperation for development effectiveness.

11. The Special Unit would also strengthen collaboration with United Nations organizations and agencies to improve policy development and advocacy for South-South Cooperation through more effective servicing by the Administrator of the High-level Committee on South-South Cooperation, intergovernmental policy dialogue and advisory services to governments, supporting United Nations-wide efforts to develop strategies for more effective South-South cooperation. Acting on the recommendations of the evaluation of UNDP support to South-South cooperation, the Special Unit would also work to strengthen the Web of Information for Development, creating measurable outcomes and output indicators for South-South knowledge and experience sharing. In addition, the Special Unit would strengthen the piloting of innovative mechanisms and development solutions that are time-bound, results-oriented and have the potential for scaling up.

12. The Special Unit intends to support the work of UNDP in assisting developing countries in achieving the Millennium Development Goals while further integrating South-South approaches into UNDP practice areas at the country, regional and inter-regional levels. The Special Unit also plans to continue its support for UNDP organization-wide efforts to systematically mobilize and leverage its institutional, technical and financial resources to help countries develop their South-South policies and programmes, serving as a central catalyst to assist the Administrator in those efforts.

13. The fourth cooperation framework will be submitted to the Executive Board during 2008.

IV. Resources

14. Total regular resources of \$14.586 million were available to the Special Unit for South-South Cooperation for 2005-2007, which included a \$3.5 million yearly allocation from UNDP and the unused balance from previous years. The entirety of available regular resources was disbursed during the three years of the third cooperation framework. In the light of the recent decision by the Executive Board to increase the yearly allocation of regular resources from UNDP to \$4.5 million, the Special Unit expects to programme its activities during the period of extension using those resources.

15. Other resources mobilized for the third cooperation framework totaled \$13.289 million, all of which has been programmed. For 2008, the Special Unit expects to mobilize \$3 million, including cost-sharing, trust fund contributions and parallel financing.

V. Recommendation

16. The Administrator requests the Executive Board to take note of the extension of the third cooperation framework for South-South cooperation (2005-2007), for a period of one year, from 1 January to 31 December 2008.



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UNIFEM

Report on the UNIFEM cost recovery policy

Summary

The cost recovery policy of UNIFEM remains anchored in the harmonized principles commonly accepted by United Nations organizations. UNIFEM is cognizant of the fact that, following several years of policy implementation, there is a need to simplify its cost recovery policy in line with inter-organization harmonization efforts so as to increase the effectiveness of policy application. Specifically, the present report suggests that UNIFEM use a single rate of seven per cent to recover the variable indirect costs of new projects funded from third-party cost sharing and trust funds.

Elements of a decision

The Executive Board may wish to:

- (a) Welcome the engagement of UNIFEM in the efforts to harmonize its cost recovery policy among United Nations organizations for multi-donor trust funds, joint programmes, and joint offices;
- (c) Reiterate the need for UNIFEM to continue monitoring efforts to ensure that functions linked to the management of other resources are adequately funded without undue subsidization by regular resources;
- (d) Take note of the present report; endorse the policy elements contained herein with respect to the recovery of indirect and direct support costs; and, in particular, recommend that a general management support cost recovery rate of seven per cent be established for new third-party and trust fund contributions.



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I. Background

1. This report is submitted in response to a request expressed by the Executive Board in decision 2007/23 for the United Nations Development Fund for Women (UNIFEM) to "carry out a review of its cost-recovery policy and to report to the Board at its January 2008 session".
2. In addition, during recent Executive Board discussions on the UNIFEM biennial support budget for 2008-2009 UNIFEM was asked to provide additional information on its cost recovery policy. Those discussions encouraged UNIFEM to harmonize its cost recovery policy with those commonly used by United Nations Development Group (UNDG) member organizations.
3. The present report comprises two main elements. First, it provides a summary of the existing policy and a record of its implementation. Second, it describes the rationale for, and recommends moving towards, a policy position harmonized with the UNDG member organizations.

II. Summary of current policy principles and practices

4. As applied in UNIFEM (and among UNDG members and most other United Nations organizations), cost recovery is the charge levied on 'other resources' (non-core) programme expenditures for the estimated incremental costs to UNIFEM associated with assuming the responsibility for managing the implementation of programmes funded through such resources.
5. The current policy is based on a harmonized set of principles and cost definitions common to United Nations organizations and endorsed by the Executive Board in its decision 2004/30 (see boxes 1 and 2).

Box 1. Harmonized cost recovery principles

1. In a multi-funded organization (having regular and other resources), each source of funding should bear all attributable costs for the necessary management provided by the organization.
2. All costs can be classified as 'direct', 'fixed indirect' or 'variable indirect' costs, based on the mandate and business model of each organization (see box 2).
3. While United Nations organizations have agreed on a common definition of cost categories, each organization must match its costs against the categories to make them meaningful. Cost recovery would generally apply to variable indirect costs. In organizations without 'untied' contributions, all indirect costs must be recovered.

6. Harmonized cost definitions in particular, as summarized below, are highly relevant in the context of current UNIFEM cost recovery practices.

Box 2. Cost classification – harmonized cost definitions

Direct costs. Direct costs are all costs that are incurred for, and can be traced in full to, the activities, projects and programmes of an organization in fulfilment of its mandate. Included are the costs of project personnel, equipment, project premises, travel and any other inputs necessary to achieve the results and objectives established for programmes and projects.

Fixed indirect costs. These are all costs incurred by the organization regardless of the scope and levels of its activities that cannot be traced unequivocally to specific activities, projects or programmes. These costs typically include the top management of an organization, its corporate costs, and statutory bodies not related to service provision.

Variable indirect costs. Variable indirect costs are all costs incurred by the organization as a function and in support of its activities, projects and programmes that cannot be traced unequivocally to specific activities, projects or programmes. These costs typically include services and administrative units, as well as their related system and operating costs.

7. In UNIFEM, cost recovery applies to the *variable indirect* and *direct* cost components. These are expressed as two distinct categories of programme support services, namely, General Management Support (GMS – indirect costs) and implementation support services (ISS – direct costs).

8. GMS encompasses general oversight and management functions of UNIFEM headquarters and subregional programme offices. These constitute variable indirect costs incurred by UNIFEM as a whole for specific services, such as, for example:

- (a) Project identification, formulation, and appraisal;
- (b) Determination of execution modality and local capacity assessment;
- (c) Briefing and debriefing of project staff and consultants;
- (d) General oversight and monitoring, including participation in project reviews;
- (e) Receipt, allocation and reporting to the donor of financial resources;
- (f) Policy advice and technical backstopping;
- (g) Knowledge management and transfer; and
- (h) Systems, information technology infrastructure, and branding.

9. Although the present report focuses specifically on the *variable indirect costs* incurred in providing GMS to UNIFEM programmes, it should be noted that it is the policy of UNIFEM to charge to projects all *direct* ISS costs (provided mainly by subregional programme offices). These include additional costs incurred for:

- (a) Payments;
- (b) Recruitment of staff;
- (c) Procurement of services and equipment;
- (d) Organization of training activities;
- (e) Travel authorization; and
- (f) Shipping.

10. The recovery of ISS presents unique implementation challenges related to 'transactional' ISS, that is, implementation services traceable to specific transactions. Subregional programme offices are encouraged to identify in the design of projects all the necessary support elements, and to establish corresponding budget lines in the programme budgets for these direct costs, consistent with the harmonized cost definitions in box 2, above.

11. For third-party cost-sharing and trust funds, the current policy prescribes a rate in the range of 3 to 13 per cent on expenditure to recover both types of costs. The table opposite provides details of support costs recovered for administering cost-sharing and trust fund resources from 2004 to 2006 (in millions of dollars).

Description	2004	2005	2006
Programme expenditure	12.9	28.2	27.6
Contributions received	25.9	31.6	32.6
Amounts charged	1	2.1	2.3
Effective rate	7.8%	7.5%	8.3%

III. Policy harmonization

12. The table above shows that UNIFEM co-financing resources have increased steadily over the period. While this growth has enabled UNIFEM to deliver high-quality development programmes, considerable costs are incurred to manage and administer those new contributions.

13. UNIFEM is committed to regularizing and harmonizing its cost recovery policy in line with recent undg decisions. UNIFEM therefore proposes to recover indirect costs for third-party cost sharing and trust fund contributions at a standard rate of 7 per cent. Subregional offices will identify all the necessary support elements in the design of projects, and will establish corresponding budget lines in the programme budgets for these direct costs, consistent with the harmonized cost definitions provided in box 2.

14. This approach has the advantage of being consistent with the undg organizations (undp, unicef, unfpa and the World Health Organization have a 7 per cent recovery rate) and having a simple structure, which would reduce the time required for negotiating co-financing agreements, and would facilitate the subsequent recording and allocation of the amounts to global, regional and national programmes by the end of each year.

15. It should be noted that UNIFEM has been participating in various joint programmes with United Nations organizations where it has been using the 7 per cent rate for its cost recovery.

16. At the rate of 7 per cent, the amount recovered would appear to be slightly lower than may have been recovered applying the actual recovery percentages in 2004 to 2006. However, based on past growth and current indications it is expected that there will be considerable volume growth, which will result in increased opportunities for efficiency-driven economies of scale.

IV. Policy reformulation and conclusions

17. Based on the foregoing, it is proposed that, as a general rule, all new 'other resources' contributions received in the form of third-party cost-sharing and trust funds should be subject to a flat cost recovery rate of 7 per cent.

18. If endorsed, this proposed policy adjustment would be limited to trust-fund and third-party contributions received by the organization subsequent to its endorsement. It would be unrealistic to expect current agreements to be retrofitted and donors to agree to apply a GMS increase to programmes under implementation, or to contributions scheduled to be received as part of existing agreements.

19. Finally, it has been argued that the volume of contribution should drive the rate at which support costs are charged, since economies of scale lead to efficiency and savings (recognizing the desirability of maintaining some degree of authority to grant exceptions to the 7 per cent flat rate rule).

20. UNIFEM proposes that some flexibility be retained, on a case-by-case basis, with the Executive Director to accommodate specific donor contributions where strategic priorities and/or partnership and harmonization goals are involved and where the volume of the contribution far exceeds the current norm.

I. Background

1. At its annual session in 2007, the Executive Board in its decision 2007/28 requested UNDP and the United Nations Capital Development Fund (UNCDF) to “finalize the details of their strategic partnership in time to present a report on this partnership to the first regular session 2008, particularly with respect to: (a) integrating the UNCDF contribution into the UNDP strategic plan, 2008-2011; and (b) achieving the strategic and operational objectives of the partnership, as outlined in document DP/2007/11”.
2. Furthermore, the Board reiterated its request that UNDP and UNCDF “continue their efforts to secure stable programme funding for UNCDF activities”, and requested UNDP and UNCDF to “complete their consultations on appropriate funding strategies and programming arrangements, and to present a detailed proposal to the Executive Board at its second regular session 2007”.
3. The Board also stressed the need to “strengthen the financial situation of UNCDF”, and reiterated its call to donor countries, and other countries in a position to do so, to “provide and sustain additional funding support for UNCDF programmes and activities in the least developed countries”.
4. Finally, the Board requested UNCDF to “inform the Executive Board of its cost-recovery policy, and to report to the Board on this policy at its first regular session 2008”.
5. At its second regular session 2007, the Board requested UNDP, in its decision 2007/34, to “provide UNCDF, on an exceptional basis, with the amount of \$6 million for 2008, and to increase efforts to work with UNCDF to provide it with stable programme resources by supporting joint programmes with UNCDF at country, regional and global levels,” and reiterated the request to UNDP and UNCDF to “present a plan containing detailed proposals to this end for discussion at the first regular session 2008”.

II. Strategic partnership with UNDP

6. In January 2007, UNDP and UNCDF presented, in document DP/2007/11, the overall aim and strategic and operational objectives of the UNDP-UNCDF strategic partnership. As indicated then, “the overall aim of the strategic partnership is to bring UNDP and UNCDF more closely together, to result in: (a) significant improvements in the efficiency, effectiveness and coherence of both organizations; (b) enhanced developmental impact of both organizations in the least developed countries (LDCs) and other developing countries; (c) more predictable, stable funding for UNCDF investment activities in the LDCs; (d) more equitable burden-sharing among Member States; and (e) greater coherence, simplicity, and harmonization within the United Nations system”.
7. Over the course of the past year UNDP and UNCDF have worked together towards finalizing the details of this strategic partnership, undertaking specific actions to achieve each one of the strategic and operational objectives. As outlined in detail in this section, most objectives had been achieved by the time of the preparation of the present document. UNDP and UNCDF have also already issued a joint guidance note for UNDP country offices and regional bureaux to inform them of the agreements reached. Outstanding actions are within the management scope of the two organizations and scheduled to be completed in the coming six to 12 months, apart from issues dealing with financial alignment, which will be discussed in further detail in the next section and may require a decision by the Executive Board.

A. Strategic objectives

Strategic objective 1. Achieving programmatic synergies based on the comparative advantages and value added by each organization

8. The strategic plan for 2008-2011, approved by the Executive Board on 8 October 2007, forms the joint strategic planning framework for both UNDP and UNCDF for the period 2008-2011. It reflects the UNCDF contributions as an integral part of the strategic plan, and notes the specific contributions that UNCDF makes through its two areas of focus – microfinance and local development – to achieving the first three goals of the strategic plan related to poverty reduction and achievement of the Millennium Development Goals, democratic governance, and crisis prevention and recovery.

9. In order to enhance accountability for the joint results of both organizations, UNDP and UNCDF have formulated joint development outcomes and outcome indicators to measure the results of their interventions undertaken within the framework of the strategic plan. The final version of the development results framework, to be submitted to the Board at its annual session 2008, will provide details of the country-level development outcomes to which UNDP and UNCDF are jointly providing support. The draft development results framework forms therefore a crucial reference for the development of complementary monitoring and reporting systems that will enable both organizations to improve their performance systematically and to prepare input for the strategic plan report. UNCDF will continue its current practice of preparing a results-oriented annual report with performance information on UNDP-UNCDF joint programmes against a more detailed and refined set of outcome and output indicators.

10. Similarly, UNDP and UNCDF are collaborating towards adjusting and further harmonizing their current institutional results framework, which measures the management results of the two organizations during the strategic plan period. Lastly, two indicators related to UNCDF have been included in the results framework prepared as part of the biennial support budget, 2008-2009.

Strategic objective 2. Achieving greater efficiency and effectiveness of joint programmes with UNDP and joint programming within the United Nations system

11. UNDP and UNCDF have agreed that in the LDCs in which UNCDF is operational its contributions in its two practice areas will be integrated into the United Nations programming frameworks agreed upon with national governments such as the United Nations Development Assistance Framework (UNDAF), and in the UNDP country programme action plan. Further, joint programmes, prepared with guidance from the United Nations Development Group (UNDG), will be the primary modality whereby UNDP and UNCDF work together at the country level towards achieving the results outlined in the UNDAF results matrix.

Strategic objective 3. Sharing knowledge on good practices in microfinance and local development for the benefit of programme countries, through UNDP and the United Nations country teams (including those not in LDCs)

12. The two organizations are in the process of preparing and adopting joint policy statements and strategies to support the implementation of the strategic plan. In the area of microfinance, UNCDF will continue to function as the UNDP policy advisor on microfinance, in line with the UNDP microfinance policy, which covers both LDCs and non-LDCs. Further, the UNDP private sector strategy finalized in September 2007 provides an integrated analytical framework for UNDP private sector work and makes clear links to UNCDF activities in building inclusive financial sectors and in local economic development. In the area of local development, a joint UNDP-UNV-UNCDF working group is presently reviewing coherence among the local development activities that, in a

transversal way, are reflected in all four goals of the UNDP strategic plan, 2008-2011. The results of those discussions will be used to determine appropriate modalities for use by UNCDF technical experts in local development in non-LDCs. Joint results reporting and joint evaluations, underpinned by the joint UNDP evaluation policy approved by the Executive Board in its decision 2006/20, will permit UNDP and UNCDF to capture systematically the lessons learned in supporting jointly formulated development outcomes in a far more systematic way than has so far been the case.

Strategic objective 4. Contributing to ongoing simplification and harmonization efforts among United Nations organizations as part of United Nations reform and follow-up to the Paris Declaration on Aid Effectiveness

13. The closer strategic partnership between UNDP and UNCDF should be seen within the larger context of ongoing simplification and harmonization, and of increased joint policy formulation, programming and knowledge sharing within the United Nations system. UNDP represents UNCDF in UNDG, and UNCDF adheres to UNDG decisions applicable to all United Nations development organizations. UNCDF and UNDG together promote the application of the Paris Declaration on Aid Effectiveness at the country level through joint programmes that support national programmes for decentralization and local development, and national strategies for inclusive financial sectors. At the global level, UNCDF represents UNDP in the Consultative Group to Assist the Poor – the donor group on microfinance – while UNDP and UNCDF both participate in the recently established donor group on decentralization and local governance.

B. Operational objectives

Operational objective 1. Clarifying respective roles and functions to support the strategic objectives, especially at the regional and country office levels.

14. UNCDF regional and country office staff are co-located with UNDP regional service centres and UNDP country offices. UNDP and UNCDF have agreed that the UNCDF personnel should be viewed as important members of the regional service centre and country office teams, and that they should be integrated into the management, operations and work flow in the offices where they are located to the greatest extent feasible consistent with their roles, responsibilities and capacities. The dual reporting lines of UNCDF staff will be duly recognized in their job descriptions.

Operational objective 2. Assuring management, operational and financial alignment with UNDP, including maximizing UNCDF participation in all appropriate UNDP planning and management frameworks and systems and the facilitation of effective resource mobilization.

15. UNCDF reports to the UNDP/UNFPA Executive Board through the Administrator. Further management alignment between UNDP and UNCDF is achieved through the integration of the UNCDF contributions in the strategic plan, thus harmonizing the overall planning and management framework. The joint implementation of the plan is supported through the direct reporting line that exists from the Executive Secretary of UNCDF to the UNDP Associate Administrator. The Executive Secretary participates in UNDP Senior Management Team retreats and relevant internal UNDP meetings, as appropriate.

16. Operationally, UNCDF is aligning itself to the extent possible with the evolving UNDP accountability framework, in terms of (a) the principles guiding the accountability framework; and (b) the operational policies, processes and accountability instruments. At the same time, UNCDF is making every effort to document those instances in which, for business reasons, UNCDF operational policies, processes and instruments differ from those of UNDP. UNCDF relies on UNDP for a broad series of high-quality, timely services, which UNDP provides on a fully reimbursable basis using its own policies and procedures.

17. Over the last few years, UNCDF has made considerable progress in ensuring financial alignment with UNDP and working with UNDP to facilitate effective resource mobilization. Since 2006, the UNCDF administrative budget has been integrated in the UNDP biennial support budget. This has resulted in a more equitable burden-sharing among development partners for this part of the UNCDF budget. Collaboration on joint other ('non-core') resources mobilization has improved, especially at the country level, resulting in a rapid increase in the amount of other resources mobilized for joint programmes and in the use of the pass-through funding modality. This funding modality provides a simple way for development partners to support complementary programme priorities while ensuring that the unique investment mandate of UNCDF is clearly delineated and protected. At the global level, the greater clarity of the UNDP role in terms of joint resource mobilization for joint UNDP/UNCDF development results has facilitated the growth in joint partnerships with new development partners.

III. UNCDF programming and funding arrangements, 2008-2011

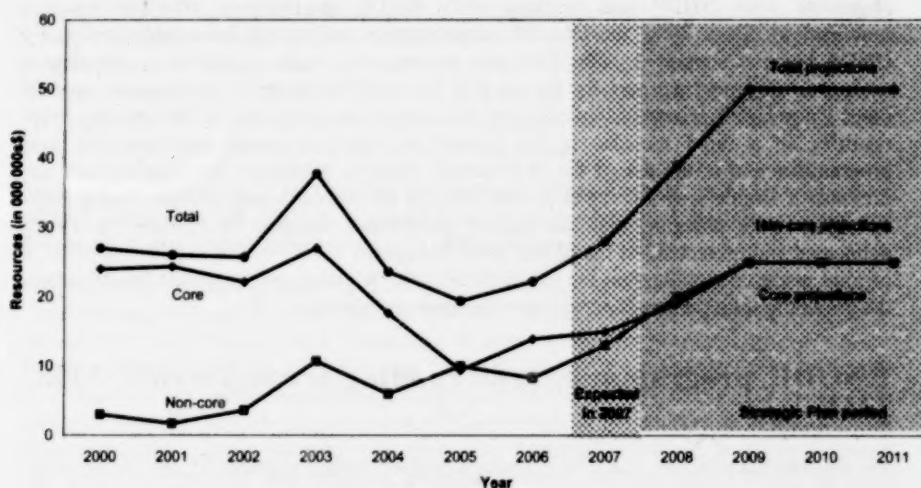
18. As referred to above, the UNDP biennial support budget includes \$5 million per year, under function 17, to cover the costs of the basic UNCDF headquarters structure. In terms of regular resources funding for programmes, UNDP and UNCDF have jointly established a target of \$25 million per year for the period 2008-2011 to permit implementation of the UNCDF investment plan. In collaborating towards achieving this target, UNDP and UNCDF strive to obtain more predictable, stable funding for UNCDF investment activities in the LDCs, and more equitable burden-sharing among Member States. This chapter provides further details on the steps that are proposed to achieve this target.

UNCDF programme funding during the business plan period (2005-2007)

19. In its business plan, 2005-2007, UNCDF presented an ambitious plan to respond to the demand of LDCs for its technical support and investments by increasing the number of LDCs which it would support by 2010 to 40 LDCs for local development and 25 LDCs for inclusive finance. To facilitate this growth in LDC coverage, regular resources funding was planned to be around \$18 million and non-core resources \$33 million, on average, per year.

20. Overall, UNCDF has been quite successful in expanding its total portfolio. By the end of 2007 UNDP and UNCDF are expected to have approved joint programmes in local development in 31 countries and in microfinance in 15 countries, with many of the new programmes being in the start-up phase. This expansion in programming has been achieved while maintaining the excellent performance on the existing portfolio of programmes, as documented in the 2006 results-oriented annual report.

21. The regular and other resources mobilization targets contemplated in the 2005-2007 business plan have, however, been only partially achieved. As table 1 indicates, total contributions to UNCDF resources (regular and other) increased from \$19.6 million in 2005 to \$22.0 million in 2006 and are expected to pass the \$25 million mark in 2007. The growth between 2005 and 2007 reflects both an increase in the number of donors contributing regular and other resources to the Fund and increased contributions from existing donors.

Table 1. UNCDF regular and other resources: trend and projections**UNCDF investment plan, 2008-2011**

22. The UNCDF investment plan, 2008-2011, summarized in table 2, provides the initial basis for UNCDF estimates of regular resource requirements during the strategic plan period. The investment plan contemplates investment of regular resources of approximately \$25 million per year, to permit coverage of 45 LDCs by 2011, and average investment per year out of regular resources of approximately \$450,000 per LDC. It responds to the increased attention paid to local development and access to financial services in UNDAFs and to the increased demand by LDCs and UNDP country offices for UNCDF technical advisory support and investment in these two areas. This seems a reflection of the comparative advantage of UNCDF in the areas of local development and inclusive finance, both in terms of its recognized technical expertise and its track record of achieving results.

Table 2. Summary of the UNCDF investment plan, 2008-2011 (regular resources)

	2008 (in dollars)	2009 (in dollars)	2010 (in dollars)	2011 (in dollars)
Total Africa (27 LDCs)	12,712,585	13,078,784	12,980,144	12,700,000
Total Asia (13 LDCs)	4,182,500	4,452,750	3,717,500	3,292,000
Total Arab States (4 LDCs)	2,074,350	2,277,150	1,976,400	1,644,900
Total Latin America (1 LDC)	650,000	800,000	800,000	500,000
Regional support	3,302,500	3,321,500	3,440,540	3,460,136
Global and research & development	2,427,222	1,854,211	1,705,263	1,850,000
Grand total (45 LDCs)	\$25,349,157	\$25,784,395	\$24,619,847	\$23,447,036

23. This investment plan reflects an investment scenario that can – in view of current country level demand and the capacity of UNCDF to respond – be realized if the current upward trend in regular and other resources contributions to UNCDF continues in the 2008-2009 period, with both of them reaching a level of about \$25 million per year in the second half the strategic plan period (see table 1). UNCDF will revise its investment plan unless funding support at the level indicated is forthcoming from donor Member States and other non-traditional development partners. Two alternative investment scenarios have been elaborated, each based on progressively lower levels of UNCDF regular resources and corresponding reductions in LDC country coverage and investment per country. The countries most affected will be those scheduled to have new programmes formulated in the 2008-2009 period as part of the UNCDF expansion plan.

Proposed UNCDF funding and programming arrangements, 2008-2011

24. UNDP and UNCDF have conducted consultations on programming and funding arrangements since the annual session 2007 of the Executive Board. UNDP and UNCDF agreed that UNCDF programming and funding arrangements should permit increased stable, multi-year funding for UNCDF while improving burden-sharing. Using the estimated \$15 million in 2007 regular resources contributions as the basis, UNCDF would require a further \$10 million annually to implement its investment plan.

25. In the context of the strategic plan, UNDP and UNCDF agree that the most appropriate programming and funding model for UNCDF programmes in the LDCs would mirror the funding model used to fund UNDP and UNCDF joint programmes at the country level. As indicated in chapter II described out in greater detail in annex 1, joint programmes will be the primary modality for UNDP and UNCDF to work together at the country level. The budgets of the joint programmes will reflect a clear division of roles based on the organizational mandates and comparative advantage of each organization. This would generally imply that UNCDF would manage funding for capital investments and international technical advisory support, while UNDP would manage funding for national capacity-building and certain policy-related advisory activities. The UNCDF part of a joint programme budget would be funded out of UNCDF regular resources (as per the UNCDF investment plan summarized above) and other resources mobilized from development partners. The UNDP part would be funded out of UNDP regular resources (allocated to countries as TRAC-1 and TRAC-2) and other resources. UNDP and UNCDF would jointly seek to mobilize other resources from development partners to support their joint programmes in local development and inclusive finance in the LDCs.

26. Based on the country-level funding model, the overall programming and funding model for UNCDF would be as follows:

- (a) Donor Member States would provide at least \$25 million per year to UNCDF in regular resources contributions, preferably through a multi-year funding commitment. About 80 per cent of those resources would be used to support capital investment and technical support activities at country level in the LDCs, the remainder being used to support the UNCDF regional support infrastructure and research and knowledge-sharing activities. A special meeting with donor Member States will be arranged before the first regular session 2008 of the Executive Board to consult on the possibility for Member States in a position to do so to provide an additional \$10 million annually for UNCDF to reach the required \$25 million in annual regular resources contributions.
- (b) In terms of other resources, UNCDF anticipates having a ratio of regular against other resources contributions of 1:1 at a minimum, resulting in an expected level of at least \$25 million per year in other resources contributions. This would bring the projected level of total contributions to UNCDF to \$50 million per year.

(c) UNDP country offices would continue to provide parallel regular resources funding of at least \$12.5 million per year to UNDP and UNCDF joint programmes. That amount is consistent with current UNDP target for resource assignment from the regular resources (TRAC) allocations to joint programmes with UNCDF and would support various policy advice and capacity-building activities. In addition, approximately \$37.5 million per year would be mobilized in other resources to be managed by UNDP country offices or in parallel resources from development partners to support the joint programmes.

(d) Overall, it is anticipated that UNDP and UNCDF would have a resource envelope of on average \$100 million per year in regular and other resources to support UNDP and UNCDF joint work in local development and inclusive finance in the LDCs. Out of this total amount about \$ 50 million per year would be managed by UNCDF.

26. The above programming and funding model would have the following benefits:

(a) *Increasing average UNCDF investments per LDC.* On average, the UNCDF investment would be about \$1 million per LDC, an increase of approximately 18 per cent against the 2006 level.

(b) *Enhancing geographic coverage of the LDCs.* UNCDF would be able to invest in 45 LDCs by 2011, an increase of 61 per cent compared to the 2006 level of 28 LDCs.

(c) *Providing stable, predictable, multi-year funding* for UNDP/UNCDF joint programmes in the LDCs for the period of the strategic plan.

(d) *Increasing efficiency and effectiveness of UNDP/UNCDF joint programmes.* Stable, predictable, funding at the level indicated above would assure that UNDP and UNCDF could properly plan and support their joint programmes in the LDCs.

(e) *More equitable burden-sharing* among more donor Member States for the activities of UNCDF in the LDCs.

(f) Increasing coherence, harmonization, and rationalization between UNDP and UNCDF in the context of United Nations reform. The programming and funding structure proposed would enable UNDP and UNCDF to design joint programmes using the comparative advantages and expertise of both organizations, and ensure that the unique investment mandate and institutional character of UNCDF are respected and utilized appropriately.

IV. The UNCDF cost-recovery policy

27. The UNCDF cost-recovery policy has three overall objectives, namely:

(a) To align with UNDP cost-recovery policy and harmonize with the UNDG cost principles, thereby responding to the request for simplification and harmonization;

(b) To move towards a more equitable burden-sharing of management costs from regular and extra budgetary resources; and

(c) To ensure effective allocation of extrabudgetary resources to improve programme delivery.

28. In document JIU/REP/3, the Joint Inspection Unit encouraged the United Nations system to harmonize its approaches to indirect cost recovery. UNCDF has endeavored to harmonize cost-recovery principles and definitions with UNDP as part of the operational alignment process. The common methodology to be adopted by UNCDF for calculating the cost-recovery rate (see CEB/2006/HLCM/20) will be based, accordingly, on the classification of support costs into 'direct', 'indirect' and 'variable indirect'. For third-party cost-sharing and trust funds, UNCDF will use the general management support rate of 7 per cent on each contribution, as approved by the Executive Board at its annual session 2007.

29. In the period 2008-2011, UNCDF foresees generating cost-recovery income from two principal sources:¹

- (a) Donor contributions to other resources. UNCDF will apply 7 per cent as general management support for cost-sharing and trust fund resources entrusted to it.
- (b) Technical advisory services to United Nations organizations and other institutions. These reimbursable services will be charged at full cost.

30. The extrabudgetary income thus generated will help UNCDF to strengthen its capacity at country, regional and headquarters levels so as to ensure successful delivery on the priorities set forth in the strategic plan, 2008-2011. More specifically, the extrabudgetary income will be used to fund, in order of importance: (a) country-level UNCDF staff and their operating expenditures; (b) additional UNCDF staff in the three regional service centres in which UNCDF currently has a presence; and (c) additional management support at the headquarters level and resources for the reimbursable services obtained from UNDP.

31. Overall, UNCDF will ensure that the regular support and project budgets do not subsidize support to programmes funded from other resources and that all costs are fully covered through a cost-recovery mechanism. Furthermore, in the context of the biennial support budget, 2008-2009, UNCDF is determined to establish and implement, in tandem with UNDP, a cost-recovery process that permits adequate management of extrabudgetary resources with a view to progressively realigning funding structures in order to achieve proportional cost-sharing between regular and extra-budgetary resources and to respond to cost containment and proportionality issues.

¹ UNCDF provides implementation support to a few UNDP projects, all of which are scheduled to end by December 2008.

Annex

Letter of agreement between the Administrator, UNDP, and the Executive Director, a.i., UNCDF

31 October 2007

Dear Colleagues,

The United Nations Capital Development Fund (UNCDF) and UNDP have been close partners since UNCDF was established in 1966 as an independent United Nations organization focused on reducing poverty by making investments in the least developed countries (LDCs).

Over the last year, UNDP and UNCDF have been exploring ways to bring the two organizations even closer together and to integrate the contributions of UNCDF into the UNDP strategic plan, 2008-2011. The aim of this closer partnership is to (i) significantly improve the efficiency and effectiveness of both organizations, (ii) enhance our joint development impact in the LDCs and other developing countries, and (iii) achieve greater coherence, simplicity and harmonization within the United Nations system. We are now pleased to share with you an overview of the significant progress we have made towards strengthening the strategic relationship between the two organizations. We will also provide some initial guidance on how our two organizations will work even more closely together during the period of the strategic plan, especially at the regional and country levels.

The key elements of the closer strategic relationship between UNDP and UNCDF that have been agreed to date are as follows:

- Within the framework of the strategic plan, 2008-2011, UNDP and UNCDF have integrated their strategic planning and overall results frameworks.
- UNDP and UNCDF have formulated development outcomes and outcome indicators in the strategic plan that will permit the two organizations to be more effective in achieving results, while relying upon the comparative advantages and added value of each organization.
- At the country level, UNCDF contributions in its two practice areas (local development and inclusive finance) will be integrated into the United Nations programming frameworks, such as the United Nations Development Assistance Framework (UNDAF) and the UNDP country programme action plan (CPAP).
- Joint programmes will be the primary modality for UNDP and UNCDF to work together at the country level and will form the basis for joint resource mobilization activities.
- UNDP and UNCDF will duly recognize and acknowledge their respective contributions towards achieving their joint development results.

To: All Regional Bureau Directors
 All United Nations Resident Coordinators
 All UNDP Resident Representatives
 All Heads of Regional Service Centers
 All Country Directors

UNCDF and the UNDP strategic plan

UNDP and UNCDF have worked closely together to integrate the contributions from UNCDF's two practice areas into the strategic plan. An even stronger collaboration between UNDP and UNCDF is foreseen, taking full advantage of the unique investment mandate of UNCDF and its focus on the LDCs. The strategic plan reflects the contributions of UNCDF in the poverty reduction, democratic governance, and crisis prevention and recovery focus areas. Annex 1 sets forth the development outcomes in the current version of the strategic plan that specifically relate to UNCDF practice areas. In addition, UNDP and UNCDF are discussing appropriate outcome indicators related to the development outcomes in the poverty reduction area. These outcome indicators in their current draft form are set forth in annex 2 and are being developed to measure joint results for UNDP/UNCDF joint programmes within the framework of the strategic plan.

Joint programming and joint programmes at the country level

UNDP and UNCDF have agreed that in the LDCs in which UNCDF is operational its contributions will be integrated into the United Nations programming frameworks agreed upon with national governments, such as the common country assessment, the UNDAF and the UNDP CPAP frameworks. Further, the primary modality for working together towards achieving the results outlined in the UNDAF results matrix will be joint programmes.

The joint programme modality will require our two organizations to modify the way we collaborate so that our programming activities conform to the joint programme policies and procedures as described in the 2003 United Nations Development Group (UNDG) guidance note on joint programming.² For the purposes of the guidance note and joint programmes generally, UNCDF is a 'United Nations organization' in its own right with the same status as any other United Nations organization with respect to joint programme issues.

The guidance note sets forth different funding modalities for financing and managing joint programmes³ and also provides additional details regarding operational, monitoring and evaluation issues. As the operational experience with joint programmes is relatively recent, it is important that best practices and lessons learned to date are used to inform specific country situations. UNCDF has gained considerable recent experience with the various funding modalities set forth in the guidance note. As a result, the Executive Secretary, a.i., of UNCDF will be the UNCDF focal point for sharing best practices and lessons learned as UNDP and UNCDF gain more experience and expertise with joint programmes.

In this context, please note that UNDG has established a United Nations joint programme database. It is important that all joint programmes between UNDP and UNCDF are entered into this database to enable proper reporting for both the current UNDP 'balanced scorecard' and reports associated with the strategic plan.⁴

Joint resource mobilization

For all development results on which UNDP and UNCDF collaborate in a joint programme structure, we have agreed that resource mobilization at the country level should be

² English version: http://altair.undp.org/documents/3642-Finalized_Guidance_Note_on_Joint_Programming_complete_.doc
French version: http://altair.undp.org/documents/3642-Finalized_Guidance_Note_on_Joint_Programming_complete_-1.doc

³ The choice of modality depends on indicators such as the comparative advantage of each organization for managing the programmatic work. Supplemental information regarding joint programmes can be found at <http://www.undg.org/index.cfm?P=237>.

⁴ This database is located at <http://www.unctdatabase.undg.org/index.cfm?module=JointProgramme&CountryID>.

approached as a task to be performed jointly, rather than for the benefit of either organization. Resident coordinators and senior UNDP and UNCDF staff should assume primary leadership for mobilizing resources for joint programmes between UNDP and UNCDF at the country level and should work closely with UNCDF country and regional staff in this regard. UNCDF will continue its practice of reinvesting most of the extrabudgetary income derived from joint resource mobilization into strengthening UNCDF country-level capacity. More specific guidance on the subject of joint resource mobilization in the context of joint programmes will be forthcoming.

For joint programmes involving co-financing from development partners, the pass-through funding modality will be the preferred structure for joint programmes between UNDP and UNCDF. While the other funding modalities may be utilized under appropriate circumstances, the pass-through funding modality will generally assure that in co-financing situations (i) the unique investment mandate of UNCDF is clearly delineated and protected; (ii) the total costs to governments and development partners are kept to a minimum; and (iii) UNDP and UNCDF funding can be leveraged with development partner funding in a simple, efficient, consistent manner.

UNDP and UNCDF will use a joint programme document to set forth the respective roles and responsibilities of each organization, along with programme objectives, strategy, results, and a budget, among other items. The budget should reflect the clear articulation of roles and responsibilities based on organizational mandates, expertise and comparative advantage. This would imply that UNCDF would manage and disburse funding for all capital investments and international technical advisory support, while UNDP would manage and disburse funding for national capacity building and certain policy related advisory activities. When using the pass-through funding modality for development partner co-financing, an inter-agency memorandum of understanding will then be used to designate the administrative agent and a letter of agreement will be executed by the administrative agent and development partners who may be interested in co-financing the joint programme, in accordance with UNDG joint programme guidelines.

Acknowledging the contributions of UNDP and UNCDF

UNDP is committed to promoting and recognizing the unique contributions of UNCDF as an important strategic partner for UNDP. To this end, UNDP and UNCDF staff in regional service centres and country offices should each recognize and acknowledge the important contributions made by each organization to our joint activities. In particular, the following measures should be implemented in country offices and regional service centres where UNDP and UNCDF are working closely together on Joint Programmes:

- (a) Where UNCDF has a physical presence in a regional service centre or a country office, signs, building directories, and other public media should indicate that UNCDF is present as a distinct United Nations organization in the same way that other United Nations organizations are indicated.
- (b) Communications materials describing joint programme activities between UNDP and UNCDF (including brochures, press releases, annual and other reports, general publications, websites, etc.) should specifically identify both UNDP and UNCDF as partners in these programmes. In addition, public information officers in regional service centres and country offices should regularly extend their support to joint programme activities involving UNDP and UNCDF.
- (c) UNCDF staff in regional service centres and country offices will be entitled to have business cards, stationary, e-mail signatures and other communications materials that specifically identify the staff as working for UNCDF, using the UNCDF logo and other marks as appropriate.

(d) UNCDF personnel should be viewed as important members of regional service centre and country office teams, and they should be integrated into the management, operations and work flow of regional service centres and country offices where they are present to the greatest extent feasible consistent with their roles, responsibilities, and capacities.

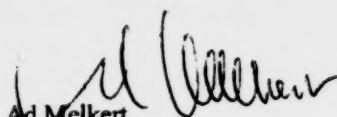
Conclusion

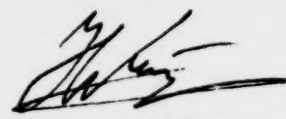
UNDP and UNCDF will be working more closely together as partners in the future. The integration of UNCDF contributions into the UNDP strategic plan, our continuing work together through joint programmes, and an increasingly systematic approach to joint resource mobilization for joint programmes, are important steps towards securing a solid, smoothly functioning strategic partnership between the two organizations.

This guidance note benefits from much work within UNCDF, in particular under the leadership of Richard Weingarten. While Richard recently left UNCDF as Executive Secretary we would like to acknowledge his efforts to bring UNDP and UNCDF in closer partnership.

This guidance should be put into effect as promptly as is practicable. At the same time, we recognize that this guidance is necessarily an initial statement on these matters, and we expect to update it periodically based on experience and lessons learned. Accordingly, we encourage your contributions as we move forward to develop a closer strategic relationship between UNDP and UNCDF.

Yours sincerely,


Ad Melkert
Associate Administrator


Henriette Keijzers
Executive Secretary a.i.

cc: Director of Bureau of Management
Director of Bureau for Development Policy
Director of Bureau for Resources and Strategic Partnerships
Director of Office of Legal and Procurement Support



**Executive Board of the
United Nations Development
Programme and of the
United Nations Population Fund**

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Item 8 of the provisional agenda

United Nations Office for Project Services

UNOPS budget estimates for the biennium 2008-2009*

Summary

The Executive Director proposes a results-based budget for the United Nations Office for Project Services (UNOPS) at the level of \$120,009,900 for the 2008-2009 biennium. This is based on a gross revenue target of \$133,343,900 and a resulting contribution to the operational reserve of \$13,334,000 or 10 per cent of gross revenue.

UNOPS has embarked on a path to restore the confidence of Member States and clients. The budget proposals underpin the specific objectives of the UNOPS business strategy for 2007-2009. While most resources are allocated to ongoing services and necessary oversight, specific biennium priorities with related proposed investments include continued improvement and external certification of business practices; learning and certification of staff competencies; knowledge sharing; and the introduction of International Public Sector Accountant Standards (IPSAS).

Elements of a decision

The Executive Board may wish to approve the budget and take note of the strategic performance objectives, measures, targets, and associated resource requirements.

*The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.



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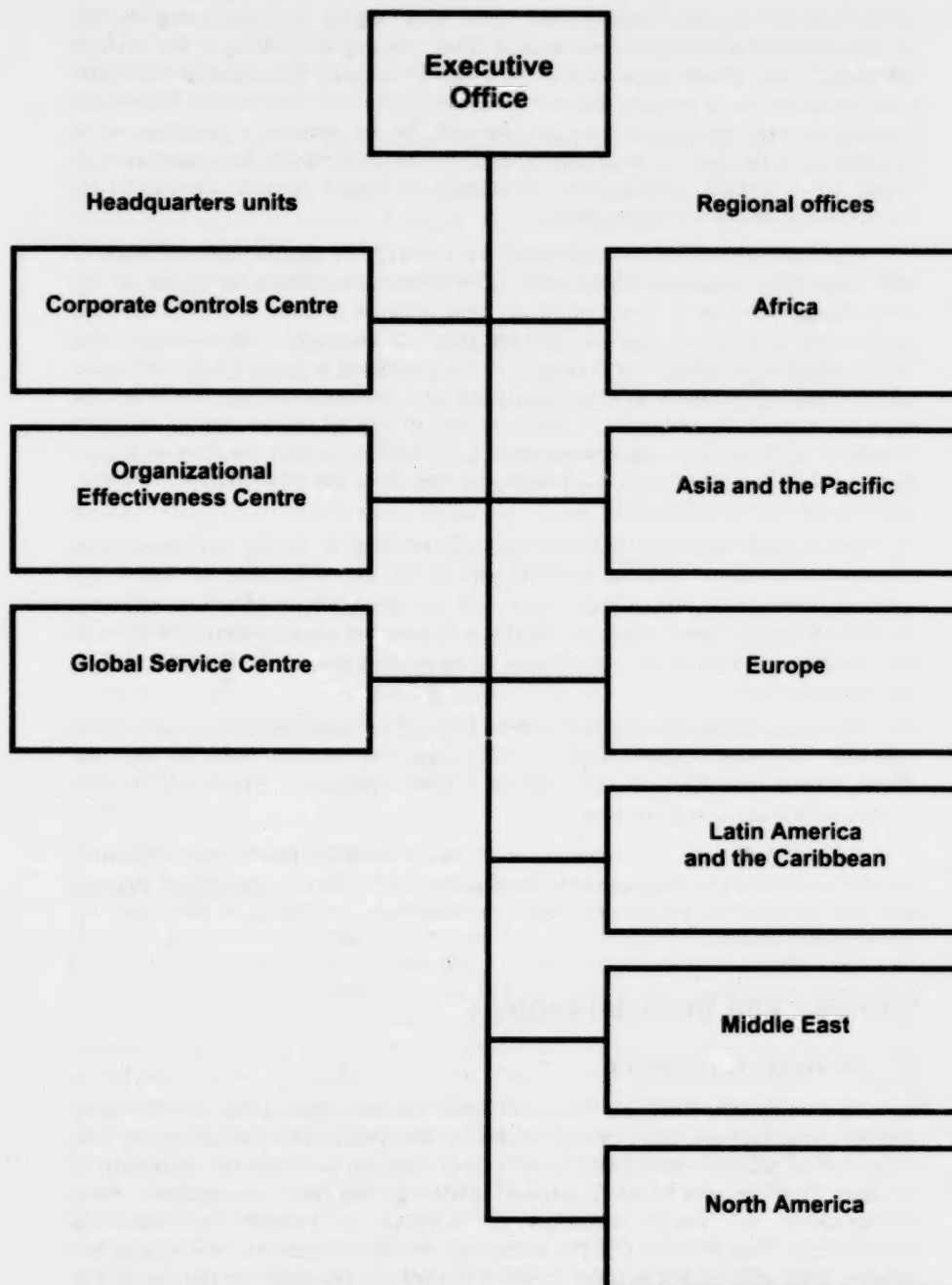
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Organizational chart



I. Executive summary

1. The 2008-2009 budget proposals are indispensable to achieving the objectives of the UNOPS business strategy for 2007-2009, which was welcomed by the Executive Board at its first regular session 2007. The implementation of the strategy has to date seen steady improvement of UNOPS financial management and other specific objectives, a process that will continue in the new biennium. UNOPS has enjoyed an encouraging increase in demand for its services, including, most remarkably, in the field of procurement. Against this background the organization is poised for increased contributions in support of United Nations peacebuilding, humanitarian, and development work.

2. The biennial budget at the proposed level of \$120.01 million is constrained by four underlying financial imperatives: (a) the recommendation to replenish the operational reserve at the level of 10 per cent of gross revenue or \$13.33 million; (b) the need to build up reserves fully for after-service health entitlements in time for introduction of IPSAS on 1 January 2010, estimated at up to \$5.90 million in total budget expenditures; (c) the significant cost increases caused chiefly by the weak dollar, with an estimated currency impact of \$10.82 million and an inflation impact of \$5.58 million. As a consequence, UNOPS will operate close to a zero nominal-growth condition, with a budget increase from the prior biennium of only approximately one million dollars.

3. The budget approach basically permits building a strong but small base capacity consisting of well-trained staff who, to the extent feasible, are externally certified within their areas. Their work will be supported by effective, efficient, recognized best business practices, ideally with external certification. UNOPS will also continue with moderate investments in knowledge sharing to further foster its core competencies.

4. The presentation of these proposals is inspired in particular by the harmonized approach for results-based budgeting developed by UNDP, UNFPA and the United Nations Children's Fund (UNICEF). That approach is integral to UNOPS performance management systems.

5. Before finalizing the submission to the Executive Board, the Executive Director consulted the Management Coordinating Committee on the budget strategy and was advised to incorporate risk considerations, including a provision for extraordinary losses.

II. Strategic and financial context

A. Strategic framework

6. As a unique and fully self-financed United Nations organization, UNOPS faces greater constraints and must operate under far less predictable circumstances than those United Nations entities that benefit from assessed or voluntary contributions to their core operations. In addition, planning and risk management must accommodate the many unknowns of working in volatile and uncertain environments. This makes a UNOPS budgeting exercise particularly challenging and requires great adaptability in order to adjust to evolving demands for and changes in the composition or volume of services. With limited core staffing on one-year contracts and additional personnel engaged through project or non-staff contracts, UNOPS can flexibly reduce or expand its operations based on client demand.

7. This document derives from prior Executive Board directions, including notably on the business strategy for 2007-2009 (decision 2007/09). Indeed, the budget is a central instrument for achieving the strategic objectives of the organization. Budget priorities have been set to maximize the quality of services rendered to clients within the overarching institutional goal of becoming a United Nations provider of management services capable of meeting recognized world-class standards of performance.

8. The business strategy focuses on achieving the following key institutional goals: financial viability; strong workforce motivation and competencies; best-in-class business processes; high client satisfaction; and strengthened partnerships. These are translated into ten strategic objectives selected for their importance to building an organization which can contribute more, as a service provider, to the results of peacebuilding, humanitarian, and development operations of the United Nations.

9. The 2008-2009 budget is an important step in the process that will permit UNOPS to implement a comprehensive, results-based management system. Already in place is a 'balanced scorecard' system to help manage the implementation of the business strategy. While budget approaches reflect the unique character of each organization, and UNOPS operates under different conditions from those affecting the United Nations Secretariat or the funds and programmes, UNOPS nevertheless benefits from the investments made by those organizations in developing methodologies for results-based budgeting. In particular, this submission is inspired by the harmonized approach of UNDP, UNFPA and UNICEF.

10. The budget incorporates, for the first time, tasks transferred to UNOPS from the UNDP Inter-Agency Procurement Services Offices (IAPSO) as of 1 January 2008 (decision 2007/38), including direct procurement of common-user items for the United Nations system; the maintenance of the United Nations procurement portal; the United Nations Global Marketplace; and the preparation of an annual report on United Nations procurement statistics. The tasks and capacities transferred from IAPSO should strengthen UNOPS as a central procurement resource to the United Nations.

B. Financial framework

Resource projections

11. The gross revenue target has been set at \$133.34 million based on a delivery of \$2.173 billion. This includes an increase in demand for traditional UNOPS services and the new services transferred from IAPSO. This growth projection should be seen in the context of growing demand for UNOPS services in the past year. New business acquisition in 2007 as of 31 October was \$1.25 billion, compared with the annual target of \$675 million (as per DP/2006/11). As can be seen in Table 1, there are changes in the composition and amount of gross revenue due to an estimated increase of revenue from project implementation and reductions in service income from IFAD, in both cases related to volume. The average fee level on project implementation is reduced from 6.4 per cent to 5.5 per cent due to the composition in the project portfolio with a greater share of procurement services. The reduction of income from other sources is of unique nature and includes the Danish contribution towards the transition to Copenhagen and other income flows during the 2006-2007 biennium.

12. At the time of preparing this budget the final results for 2007, which determine the opening balance for the new biennium, were not yet known. One aspect concerns

delivery and related income, as some major procurement activities under way will materialize in December 2007 or in early 2008. While either scenario will contribute positively to the financial results, the actual timing affects the distribution of those contributions between the two biennia. For planning purposes, a delivery forecast of \$840 million and a gross revenue inclusive of services of \$66.9 million have been used for 2007. This is well above the original targets of \$612.26 million and \$49.40 million respectively.

13. Another aspect which will influence the opening balance for 2008 is the status of potential liabilities from 2004-2005 and earlier. At the time of finalizing the budget two major items were under intense discussion with UNDP. These include the unreconciled balance of approximately \$10.0 million in the UNDP-UNOPS interfund — against which UNOPS has already made a provision of \$5.0 million, and the Afghanistan election cost overrun of \$9.6 million — for which UNOPS has set aside \$2.3 million. The net value of other known potential liabilities amount to approximately \$5 million. While it is difficult to now predict the outcome of any settlement, provisions will be made in certified Financial Statements for 2006-2007 based on the information available at that time.

14. The budget expenditures of UNOPS are seriously affected by the weak US dollar, which together with regular inflation and salary increases drives up costs significantly. The proforma salary costs in the proposals are increased by 15 per cent from 2007 to 2008 and an additional 5 per cent in 2009. The estimated cost increase from 2006-2007 to 2008-2009 for currency reasons is \$10.82 million and for inflation \$5.58 million. Any further movement of currency rates and inflationary factors will need to be monitored carefully and accommodated during implementation of the budget.

Table 1. Budget estimates for 2008-2009

	2006-2007 estimate (in dollars)	2008-2009 budget (in dollars)	% change
Revenue from project implementation	98,568,000	118,346,500	20.07%
Revenue from service projects	19,387,000	14,997,400	-22.64%
Revenue from other sources	19,518,478		
Total revenue	137,473,478	133,343,900	-3.00%
Staff cost	32,354,000	43,109,169	33.24%
Non-staff cost	35,556,950	26,881,382	-24.40%
Total regional office and country office cost	67,910,950	69,990,551	3.06%
Staff cost	27,613,000	33,315,150	20.65%
Non-staff cost	15,111,960	6,891,451	-54.40%
Total headquarters cost	42,724,960	40,206,601	-5.89%
United Nations service fees (including UNDP)	4,686,790	2,546,875	-45.66%
Investments		3,276,374	
Other corporate cost	3,199,698	3,489,500	9.06%
Total corporate cost	7,886,488	9,312,749	18.08%

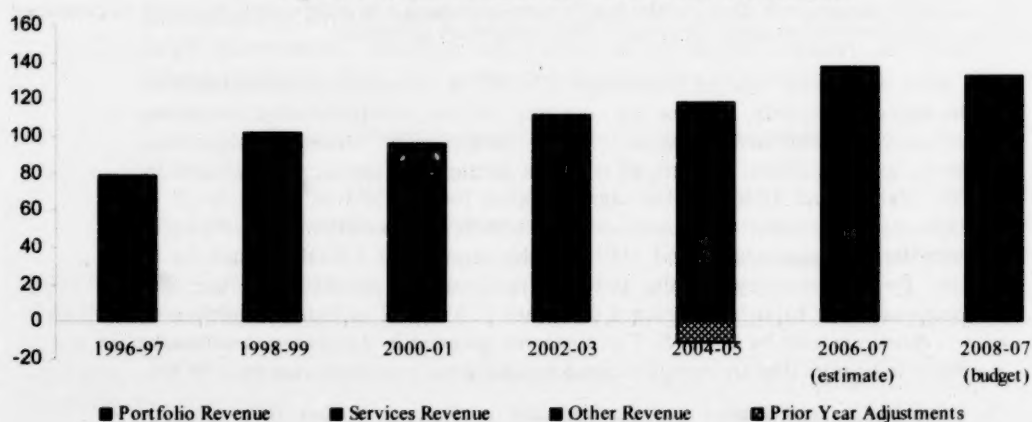
Total cost	118,522,398	119,509,901	0.83%
Net profit/(loss) from ongoing operations	18,951,080	13,834,000	-27.00%
Provision for contingent liabilities – current biennium	(500,000)	(500,000)	
Total extraordinary gain/(loss)	(500,000)	(500,000)	
Total estimate/budget, including extraordinary gain/(loss)	119,022,398	120,009,901	
Contribution to the reserve	18,451,080	13,334,000	
Reserve opening balance	4,362,000	2/ 22,813,080	
Reserve closing balance	2/ 22,813,080	2/ 36,147,079	

1/ New category for 2008-2009

2/ 2006-2007 reserve closing balance subject to adjustment for settlement of prior year liabilities, which will also impact 2008-2009 opening and closing balances

15. The United Nations provides employees who have met certain eligibility requirements with health care benefits (known as ASHI) after they retire. UNOPS currently treats ASHI liabilities in accordance with United Nations system accounting standards (UNSAS), which require organizations either to accrue for the related expenditures or to disclose unaccrued amounts in the notes to the financial statements. Following the United Nations endorsement of the change in accounting standards from UNSAS to IPSAS, the accrual of all expenditures including after service health benefits will become mandatory. UNOPS therefore intends to make full accrual for ASHI liabilities by the end of 2009. To achieve that objective, in addition to provisions made in 2004-2005 and 2005-2006, \$5.9 million of ASHI charges have been included under staff costs in the present budget proposals.

Figure 1. Gross revenue from 1996-1997 to 2008-2009



16. The operational reserve requirement at the time of budget preparation stands at \$30.3 million. Since this amount is based on the three-year average of project and budget expenditures, it should increase annually, with current projections, and reach a level of \$42.5 million when the 2008-2009 financial results have been certified. While a clear goal is to rebuild the reserve to the required level as soon as possible, overcharging clients to increase revenues or under-investing in operational capacity to reduce expenditures would carry great risks for the sustainability of operations. After detailed analysis, UNOPS therefore proposes to target the level of contribution to the operational reserve at 10 per cent of total projected gross revenue, or \$13.3 million for the biennium. This would result in a reserve level at the end of the biennium of \$36.1 million before reflecting any extraordinary losses from 2004-2005 and earlier years in the financial statement for 2006-2007.

III. Proposals for the 2008-2009 budget

A. Summary of budget proposals

17. The Executive Board did not receive UNOPS budget proposals for 2006-2007. Document DP/2005/39 presented an action plan and certain financial projections. In its decision 2005/36, the Board provided strategic guidance aimed at restoring the financial sustainability of the organization. Annex 2 of the progress report of the Executive Director on the activities of UNOPS (DP/2006/11) provided financial projections for 2006 and 2007. The Board took note of this in its decision 2006/06. As illustrated in table 2, below, the net revenue before extraordinary losses of \$18.9 million exceeds the original target of \$13.7 million.

Table 2. Projected and estimated actual financial performance for 2006-2007

	2006-07 original targets (in millions of dollars)	2006-07 estimated actuals (in millions of dollars)
Gross revenue	\$108.7	\$137.4
Expenditure	\$95.0	\$118.5
Net revenue	\$13.7	\$18.9

Note: Revenues and expenditures pertaining to IFAD are excluded from the targets and included in the actual amounts. The Danish contribution and transition-related expenditures had not been anticipated. Net revenue is before extraordinary gains/(losses)

18. With the present budget submission UNOPS is initiating implementation of results-based budgeting within the context of its comprehensive corporate performance management system, which incorporates strategic objectives, measures, and indicators. In contrast with the harmonized approach developed by UNDP, UNFPA and UNICEF, the starting point for UNOPS is at the level of strategic objectives rather than functions. Furthermore, due mainly to the differences between those organizations and UNOPS, the number of UNOPS functions is smaller. For an overview of the strategic performance objectives in the four perspectives of the balanced scorecard see annex 1. Annex 2 includes definitions of the ten functions used by UNOPS. The measures selected in the present submission are proxy indicators that are complemented by additional measures used by UNOPS.

19. The budget preparation exercise included a thorough review of staffing at headquarters and in the field. The headquarters staffing reflects the new structures implemented since relocating to Copenhagen. All 31 additional posts indicated in

table 3 – one D-1, six professionals and 24 general service staff – are associated with the IAPSO merger. The addition of 21 positions in regional offices and operations centres results from the objective of establishing uniform core capacities in those offices and to ensure that core functions are systematically carried out by staff, and not (as has at times been the case) by service contract holders. As of 2008, in addition to the regional director each regional office will include positions for a deputy regional director, a procurement officer, a legal officer, a human resource officer, and information and communications support staff. A region-based finance officer with supporting staff had already been mandated as part of the restructuring of the finance function in 2007. In operations centres, in addition to the centre director/centre manager there will be at least one administration/finance officer.

Table 3. Posts by location, 2006-2007 and 2008-2009

	2006 - 2007			2008 - 2009			Change (increase)		
	HQ	RO	Total	HQ	RO	Total	HQ	RO	Total
ASG	1	0	1	1	0	1	0	0	0
D2/L7	1	0	1	1	0	1	0	0	0
D1/L6	5	12	17	6	12	18	1	0	1
Other international Professionals	52	101	153	58	115	173	6	14	20
All Other	25	142	167	49	149	198	24	7	31
Total	84	255	339	115	276	391	31	21	52

HQ : Headquarters

RO : Regional offices and operations centres

20. To support institutional improvement and augment the staff time being devoted to corporate priorities, the following investments are proposed:

- (a) External certification of business practices – \$0.5 million
- (b) Learning and external certification of staff skills – \$1.5 million
- (c) Knowledge sharing - \$0.3 million
- (d) IPSAS implementation - \$1.0 million

B. Resources by strategic performance objective

21. The allocation of resources to each strategic performance objective is summarized in table 4, below, while allocation by function is shown in table 5. As might be expected, resources concentrate on operational capacity and financial management objectives, with fewer resources devoted to other priorities.

Table 4. Budget proposals by strategic performance objective

Strategic performance objective	2008-2009 resource allocation (in millions of dollars)
Improving financial performance	\$15.61
Mitigating financial risks	\$7.42
Improving the timeliness and quality of reporting	\$5.98
Delivering services that meet or exceed client expectations	\$73.16
Improving communications	\$1.31
Improving the efficiency and effectiveness of business processes	\$7.59
Fostering a knowledge sharing culture	\$1.88

Improving staff competencies	\$3.94
Enhancing workforce diversity	\$0.66
Increasing staff motivation	\$1.97
Total (excluding extraordinary gain/losses)	\$119.51

Strategic performance objective 1. Improving financial performance

Description

22. UNOPS recognizes that its operations require a secure financial footing, and the organization is therefore dedicated to improving its financial performance and replenishing its operational reserves to required levels.

Key activities

23. UNOPS will pursue focused, systematic business development and outreach efforts to refine its services in its traditional areas of work, such as infrastructure, mine action, censuses and elections, the environment, and fund supervision, as well as in areas where demand is growing strongly, such as procurement. UNOPS will also actively seek to enhance those contributions to the United Nations system included in the mandates and capacities transferred from IAPSO.

24. Close attention will be paid to realistic target-setting and continuous monitoring of financial performance through the balanced scorecard and 'financial dashboards'. Tight financial management of income and budget expenditure will result in quarterly budget adjustments, as may be required.

Accountability and funding levels

25. The strategic management, policy, and business development function, coordinated at headquarters by the Executive Office and the Corporate Strategy Unit, will improve performance towards this objective. Accountability cascades from the Executive Director through the regional directors to managers reporting to them, based on financial targets set for each of them. Total funding to carry out related activities amounts to \$15.61 million for the biennium.

Management result	Measure	2008-2009 target	Related function	2008-2009 resource allocation (in \$ millions)
Improved and sustained financial performance	Contribution to the operational reserves (in millions of dollars)	\$13.33	Strategic management, policy and business development	\$15.61

Strategic performance objective 2. Mitigating financial risks

Description

26. To attain a secure financial footing, UNOPS must operate in a manner conducive to mitigating financial risks at all times. To that end, UNOPS is strengthening its internal audit and financial management capacities, policies, and procedures.

Key activities

27. The existence for the first time of a fully staffed, professionally competent finance team at headquarters, with outposted officers in the regions, will improve financial oversight and control and provide critical advisory services to managers at all levels. Finance staff levels have increased in numbers and qualifications. This was accomplished with only marginal cost increases, in part through the use of national professionals. A new internal control framework and revised financial rules and regulations will be important priorities for the finance function as a prerequisite for implementation of IPSAS in 2010.

28. Internal audit, another new reality at UNOPS, is now staffed in-house, reporting directly to the Executive Director. The number of auditors will increase from three under the prior outsourcing arrangement to five, with only marginal cost increases. The internal audit team will develop and apply tools for risk assessment in its audit work.

29. An external audit advisory committee, with members working pro bono, will offer advice to the Executive Director on risk management and oversight of the organization.

Accountability and funding levels

30. The financial management and audit functions, which are coordinated at headquarters by the Corporate Control Centre, will improve performance towards this objective. Accountability for results rests with the Finance Director and the Head of Internal Audit. Total funding to carry out related activities amounts to \$7.42 million for the biennium.

Management result	Measure	2008-2009 target	Related function	2008-2009 resource allocation (in \$ millions)
Mitigated financial risks	Implementation rate of external audit recommendations (within biennium) ¹	75%	Audit	\$3.44
			Financial Management	\$3.98

Strategic performance objective 3. Improving the timeliness and quality of reporting*Description*

31. In previous years UNOPS experienced some difficulties in reporting to the Executive Board and to clients. Timely, accurate reporting is a requirement for transparency and accountability.

Key activities

32. Real-time reporting that exploits the corporate management system – Atlas – requires continuing migration from the traditional use of imprest transactions at UNOPS. Full implementation of standard operating procedures for the expanded use of Atlas for payments and financial management will occur in 2008.

¹ This indicator measures the rate of implementation of the 2006-2007 audit recommendations received from the United Nations Board of Auditors.

33. Since weaknesses in the interface between UNDP and UNOPS have caused financial reporting problems, arrangements will be made for UNOPS to charge UNDP-funded projects directly through Atlas wherever possible, thus eliminating the need for reconciliation of different project accounts.

Accountability and funding levels

34. The financial management function, coordinated at Headquarters by the Corporate Control Centre, will improve performance towards this objective. Accountability for results rests with the Finance Director, regional directors, operations centre directors/managers, and portfolio managers. Total funding to carry out related activities amounts to \$5.98 million for the biennium.

Management result	Measure	2008-2009 target	Related function	2008-2009 resource allocation (in \$ millions)
Improved timeliness and quality of reporting	Reduction in imprest transactions share of total delivery	80%	Financial management	\$5.98
	Client satisfaction with the timeliness of UNOPS reporting	75%		
	Client satisfaction with the quality of UNOPS reporting	75%		

Strategic performance objective 4. Delivering services that meet or exceed client expectations

Description

35. UNOPS clients and partners, and the Member States, demand and deserve the best. UNOPS is dedicated to providing client services in a responsive, reliable, and innovative manner.

Key activities

36. UNOPS will improve its ability to clarify with clients all mutual expectations and regularly review actual performance. In 2008, UNOPS will begin implementing client surveys systematically to obtain feedback on performance and to identify any corrective action needed.

37. In 2008 UNOPS will also commence reporting to the Executive Board on contributions to the results of its clients. A new management tool will provide useful data on projects as a baseline for the management of results.

38. In line with its business strategy, UNOPS will integrate its efforts fully within United Nations country teams and ensure that it contributes to the work of the United Nations at the country level. As a further contribution, as of 2008 UNOPS will assume responsibility for the United Nations Global Marketplace, the

procurement portal of the United Nations, and will prepare the annual report on United Nations procurement statistics.

Accountability and funding levels

39. The operational services and United Nations coordination functions will improve performance towards this objective. These functions are implemented by regional offices and operations centres in cooperation with the Global Service Centre located at headquarters. The accountability for results remains with the managers of those units. Total funding to carry out related activities amounts to \$73.16 million for the biennium.

Management result	Measure	2008-2009 target	Related function	2008-2009 resource allocation (in \$ millions)
Client expectations met or exceeded	Client overall satisfaction with UNOPS as a service provider	80%	Operational services	\$70.14
			United Nations coordination	\$3.02

Strategic performance objective 5. Improving communications

Description.

40. UNOPS recognizes that effective communication with external parties – especially clients – is crucial to building mutual trust and long-lasting relationships.

Key activities

41. UNOPS will revamp its website in early 2008 and improve the content of this communications vehicle. UNOPS will also produce low-cost publications on services provided. A new customer relationship module will be implemented to capture client data.

Accountability and funding levels

42. The communications and external relations function, coordinated at headquarters by the Executive Office, will improve performance towards this objective. Accountability for results rests with the Senior Management Adviser and the Director of Business Development. Total funding to carry out related activities amounts to \$1.31 million for the biennium.

Management result	Measure	2008-2009 target	Related function	2008-2009 resource allocation (in \$ millions)
Improved communications with clients	Client satisfaction with the ability of UNOPS to communicate clearly	80%	Communications and external relations	\$1.31

Strategic performance objective 6. Improving the efficiency and effectiveness of business processes

Description.

43. To deliver management services that meet or exceed client expectations UNOPS must ensure efficient and effective business processes and business practices supported by a robust information and communications technology platform.

Key strategic activities

44. The continued development and strong implementation of standard operating procedures in the functional areas of project management, finance, procurement, and human resources will remain a priority, together with an effort to obtain internationally recognized certification of core processes, such as from the International Organization for Standardization. Of particular importance is the implementation of a new project acceptance regime based on comprehensive assessment of risks, and a new approach to results-based management and reporting.

45. A new information and communications technology strategy for 2008-2011 is under development and will guide these efforts during the biennium.

Accountability and funding levels

46. The business process management function and the information and communications technology function will improve performance towards this objective. Accountability for results rests with the Director of Organizational Effectiveness and Human Resources, and the Chief Information Officer. Total funding to carry out related activities amounts to \$7.59 million for the biennium.

Management result	Measure	2008-2009 target	Related function	2008-2009 resource allocation (in \$ millions)
Improved efficiency and effectiveness of business processes	Number of standard operating procedures in active use ²	25	Business process management/ information and communications technology	\$7.59
	Headquarters Contracts and Property Committee case deferrals rate	10%		

Strategic Performance Objective 7. Fostering a knowledge-sharing culture

Description.

47. Efficient, effective business processes and practices benefit from an organizational environment conducive to the exchange of information and ideas.

² A panel of internal expert members within the organization will assess and score the active use of standard operating procedures against well-defined assessment criteria.

Key activities

48. Through 'communities of practice' networks, UNOPS is supporting the sharing of knowledge and helping core and project staff retain critical institutional memory. The latter process also includes systematic measures such as exit interviews and handover notes, as well as the establishment of an alumni network.

49. Designated global practice leads for infrastructure, census and elections support, mine action, and drug procurement are responsible for enhancing knowledge sharing and management in their areas of responsibility. Part-time practice leads have assumed similar responsibilities in other fields, including functional areas such as project management and procurement.

Accountability and funding levels

50. The knowledge-sharing function, coordinated at headquarters by the practice leads in the Executive Office, will improve performance towards this objective. Accountability for results rests with the Director for Business Development and the Director of Organizational Effectiveness and Human Resources. Total funding to carry out related activities amounts to \$1.88 million for the biennium.

Management result	Measure	2008-2009 target	Related function	2008-2009 resource allocation (in \$ millions)
Enhanced knowledge-sharing	Number of registered members to the communities of practice	900	Knowledge sharing	\$1.88
	Communities of practice usage ³	5		

Strategic performance objective 8. Improving staff competencies*Description.*

51. To ensure that UNOPS meets or exceeds client expectations for efficient, effective business practices, UNOPS must give staff the opportunity to improve performance in their respective areas through appropriate, competency-building measures.

Key activities

52. In 2008 UNOPS will map the competencies of all staff and continue investing in externally recognized certifications in project management, procurement, and finance. Given the limited financial resources available, additional training will focus on standard operating procedures, Atlas proficiency, performance management, and new policy initiatives mainly by means of web-based learning.

Accountability and funding levels.

53. The human resources management function, coordinated at headquarters by the Strategic Human Resources Unit, will improve performance towards this objective.

³ Formula: Average number of messages per registered member sent to the communities of practice.

Accountability for results rests with the Director of Organizational Effectiveness and Human Resources. Total funding to carry out related activities amounts to \$3.94 million for the biennium.

Management result	Measure	2008-2009 target	Related function	2008-2009 resource allocation (in \$ millions)
Improved staff competencies	Training rate ⁴	50%	Human resources management	\$3.94
	Number of staff professionally certified (within biennium)	100		

Strategic performance objective 9. Enhancing workforce diversity

Description.

54. UNOPS believes a diversified workforce contributes to the creation of a motivating work environment and brings new knowledge and innovative ideas that can benefit clients.

Key activities

55. UNOPS will develop and implement policies to ensure workforce diversity. Managers will work towards corporate diversity targets set for each office.

Accountability and funding levels

56. The human resources management function, coordinated at headquarters by the Strategic Human Resources Unit, will improve performance towards this objective. Further accountability lies with each manager. Accountability for results rests with the Director of Organizational Effectiveness and Human Resources and with line managers. Total funding to carry out related activities amounts to \$0.66 million for the biennium.

Management result	Measure	2008-2009 target	Related function	2008-2009 resource allocation (in \$ millions)
Improved diversity through gender balance	Female-to-male ratio in the workforce	0.65	Human resources management	\$0.66
	Female-to-male ratio in the professional categories	0.50		

Strategic performance objective 10. Increasing staff motivation

Description.

57. UNOPS views its human capital as a valuable asset and believes that the more motivated staff are, the better the organization can serve its clients.

⁴ This measure is exclusive of mandatory training for all staff, such as security training and harassment training.

Key activities

58. UNOPS will develop and implement policies for career development, rotation and rewards, working closely with staff in this process.

59. Much of the work of UNOPS is carried out in challenging security situations. The protection of staff is a paramount priority for management. Required investments in internal capacity and contributions to the United Nations Department of Safety and Security are borne by the administrative budget and project budgets.

Accountability and funding levels

60. The human resources management function will improve performance towards this objective. Overall accountability for results rests with the Deputy Executive Director (for security) and with the Director of Organizational Effectiveness and Human Resources. Total funding to carry out related activities amounts to \$1.97 million for the biennium.

Management result	Measure	2008-2009 target	Related function	2008-2009 resource allocation (in \$ millions)
Increased job satisfaction	Job satisfaction rate	85%	Human resources management	\$1.97
	Staff perception of the appropriateness of security arrangements in the workplace	90%		

Table 5. Budget proposals by function

Function	2008-2009 resource allocation (in \$ millions)
Operational services	\$70.14
Strategic management, policy and business development	\$15.61
Financial management	\$9.96
Human resources management	\$6.57
Information and communications technology	\$4.49
Audit	\$3.44
Business process management	\$3.10
United Nations coordination	\$3.02
Knowledge sharing	\$1.88
Communications and external relations	\$1.31
Total (excluding extraordinary gain/losses)	\$119.51

Annex 1**Overview of strategic performance objectives in the four perspectives of the balanced scorecard**

Finance	...to improve financial performance (SPO-1)	...to mitigate financial risks (SPO-2)	
Clients and stakeholders	...to improve the timeliness and quality of reporting (SPO-3)	...to deliver services that meet or exceed the expectations of clients (SPO-4)	...to improve communications (SPO-5)
Business processes	...to improve the efficiency and effectiveness of business processes (SPO-6)	...to foster a knowledge sharing culture (SPO-7)	
People	...to improve the competencies of staff (SPO-8)	...to enhance diversity in the workforce (SPO-9)	...to increase the motivation of staff (SPO-10)

SPO – strategic performance objective

Annex 2.

Descriptions of UNOPS functions

Strategic management, policy and business development

61. Carry out activities to set the strategic direction for the organization, establish strategic priorities, define strategic results, monitor corporate performance, and make strategic investment decisions. The function also covers activities that provide corporate legal guidance; coordinate corporate policy work; analyse business trends; scan the business environment; identify new market opportunities; manage client relations; establish new business partnerships; and coordinate business development efforts across regions and operation centres.

Communications and external relations

62. Carry out activities to promote effective communications with clients and other external stakeholders, fostering effective horizontal and vertical communication within the organization and a strong corporate identity among UNOPS staff.

Financial management

63. Carry out activities to strengthen financial procedures, provide financial oversight at all levels of the organization, and devise strategies and policies to mitigate financial risks.

Audit

64. Carry out activities to strengthen UNOPS oversight and control procedures, ensuring effective business practices and mitigating financial risks. The function covers the recently established internal audit function, coordination activities with external audit bodies, and administrative support to the newly established Strategy and Audit Advisory Committee, comprised of external members.

Human resources management

65. Carry out activities to devise human resources strategies; develop and implement human resources policies; strengthen recruitment procedures; manage staff performance; manage staff career and development, including competency development; and ensure staff welfare and staff security.

Business process management

66. Carry out activities to identify process flaws, ensure efficiency and effectiveness of operational business processes, business support processes, and strategic management processes, and ensure process consistency across regions through standardization.

Knowledge sharing

67. Carry out activities to establish and manage mechanisms to facilitate efficient transfer and dissemination of knowledge within the organization and retention of valuable knowledge in the organization.

Information and communications technology

68. Carry out activities to integrate information and communications technology-based systems and leverage information and communications technology in a manner conducive to achieving process efficiency gains. The function also covers daily maintenance and support of information and communications technology-based systems.

Operational services

69. Carry out transactional activities to service UNOPS clients. The function covers activities that provide management services to clients, such as project management and project administration services, procurement and contract administration services, recruitment and contract administration services, funds supervision, administration, and management services. The function includes transactional activities related to general administrative support services provided to internal stakeholders, such as recruitment and contract administration services, travel administration, payments, and financial processing.

United Nations coordination

70. Support United Nations coordination including active participation in United Nations country teams, in the activities of the Chief Executives Board/High-level Committee on Management, and in the undg management group. The function also covers activities related to the maintenance and administration of the United Nations Global Marketplace, as well as the publication of the annual report on United Nations procurement.

Background

1. The programming arrangements for the period 2008-2011 were reviewed and approved by the Executive Board, in its decision 2007/33, during its second regular session 2007. Among other changes, the programming arrangements contain specific proposals to enhance the effectiveness of the existing TRAC-2 facility.
2. Executive Board decision 2007/33 established a 50:50 share between TRAC-1 and TRAC-2 for that entire pool of resources. It also confirmed that country limitations on the assignment of TRAC-2 resources no longer exist, and provided regional flexibility of up to 10 per cent.
3. Decision 2007/33 also requested the Administrator to submit to the Executive Board, at its first regular session 2008, information on: (a) country-by-country TRAC-2 allocation since 2005; (b) the methodology of TRAC-2 allocation; and (c) criteria for establishing specific fixed lines, for further consideration of these issues.
4. With regard to the criteria for establishing fixed lines, it is important to highlight that decision 2007/33 also requests the Administrator to submit to the Executive Board, at its first regular session 2009, a report with proposals to realign cost classification activities funded from the programme financial framework and the biennial support budget in the context of the preparation of the biennial support budget, 2010-2011. The criteria and rationale for establishing fixed lines are an integral to the cost classification issue.
5. This note provides the information requested in decision 2007/33, organized into two chapters. The first explains the methodology for TRAC-2 and the country-by-country allocation for the 2004-2007 programming period, while the second gives the criteria for establishing fixed lines in the programming arrangements framework.

I. The TRAC-2 allocation framework and methodology

6. The TRAC-1/TRAC-2 resource facility was legislated by Executive Board decision 95/23, in which the successor programming arrangements for 1997-1999 were approved. The resource facility superseded the former indicative planning figures resource facility, primarily to provide a more flexible method of allocating regular resources to programme countries. The legislation emphasized that national development priorities are the primary determinant of UNDP-supported programmes, which must remain country-driven. It also stated that the programming arrangements for both TRAC-1 and TRAC-2 would be the same.
7. With respect to TRAC 2, the decision stressed (a) the need to ensure that countries with limited capacity for programme formulation benefit fully from TRAC 2, inter alia strengthening their capacity for programme design and implementation to enhance access to TRAC 2 resources; (b) the importance of programme quality, including the degree to which programme proposals are aimed at promoting high-leverage activities in the sustainable human development focus areas, particularly poverty elimination; and (c) the need to address special needs and opportunities for capacity-building.

8. The underlying objective of the TRAC-2 resource facility thus remains to “provide the Administrator with the flexibility to allocate resources to high-impact, high-leverage activities and to reward programme quality”.

9. In its decision 2005/26, the Executive Board endorsed the UNDP proposal that it focus additional TRAC-2 resources on capacity development to support achievement of the Millennium Development Goals, recognizing that capacity development and national ownership are essential for their achievement. UNDP gradually oriented TRAC-2 resources towards support to programme countries for developing capacity¹ to achieve the Goals.

10. Capacity development is reflected in the updated strategic plan, 2008-2011, as one of the critical contributions to development across the four programmatic areas of intervention. As stated in decision 2007/32, “support to capacity development constitutes the overarching contribution of UNDP in assisting the efforts of programme countries to achieve internationally agreed development goals, including the Millennium Development Goals, and underlines that the emphasis of capacity-building includes institutional and human capacity-building in accordance with their national plans and strategies”.

11. Accordingly, the criteria that guide the allocation of TRAC-2 resources are aligned to the areas of support identified in the updated strategic plan with regard to capacity development, responding to the national plans and strategies of programme countries. This includes areas that provide specific entry points to leverage opportunities available at the country level, and that enhance the quality of UNDP-supported programmes within the context of approved country programme documents and country programme action plans.

Allocation criteria

12. UNDP engages in capacity development activities in four areas:

- (a) Capacity assessments²;
- (b) Capacity development response strategies;
- (c) Costing capacity development strategies; and
- (d) Capacity development monitoring and evaluation.

For further details, please see *Supporting Capacity Development: The UNDP Approach*, available online at www.capacity.undp.org.

13. In view of the above, three primary criteria are used as the main determinants for allocating TRAC-2 resources, as follows:

Criterion 1. National capacities for the Millennium Development Goals and human development, policy and plans

14. Areas of support under criterion 1 are:

- (a) MDG needs assessments and costing;
- (b) Monitoring, analyzing and reporting on Millennium Development Goals and human development progress;
- (c) Research and diagnostic capacities to support macroeconomic, governance, and sector approaches that support the Millennium Development Goals and human development;

¹ UNDP defines ‘capacity’ as “the ability of individuals, institutions, and societies to perform functions, solve problems, and set and achieve objectives in a sustainable manner”.

² UNDP Practice Note on Capacity Assessment, September 2007, available online at www.capacity.undp.org.

- (d) Capacity assessments, costing and designing capacity development response; and
- (e) Policy development, transformation or review in support of the Millennium Development Goals and International Development Targets.

Criterion 2. National capacities for implementation of development strategies and goals

15. Areas of support under criterion 2 are:

- (a) Capacities for state building and service delivery in crisis and post conflict;
- (b) Capacity development for national aid management and coordination;
- (c) Sub national capacities for local development, Millennium Development Goals implementation and service delivery;
- (d) National capacities for monitoring and accountability of development results; and
- (e) Capacity development for national programme implementation, including delivery on Global Funds against HIV/AIDS, Tuberculosis, and Malaria.

Criterion 3. Response to emerging development priorities of programme countries

16. Areas of support under criterion 3 are:

- (a) South-South cooperation initiatives;
- (b) Gender equality and women's empowerment;
- (c) Resource mobilization for national and local-level Millennium Development Goals initiatives;
- (d) United Nations inter-organization collaboration and United Nations common initiatives; and
- (e) Public-private sector and civil society partnerships towards development goals.

A. TRAC-2 resources allocated during the period 2004-2007: process and methodology

17. Decision 95/23 introduced a new, more flexible, three-tier target for the allocation of resources to the country level. The three-tier allocation system operates within two separate TRAC resources facilities, namely, TRAC-1/TRAC-2 and TRAC-3, as TRAC-1/TRAC-2 constitute the same resource facility.

18. At the beginning of each programming cycle, TRAC 1 resources are computed and allocated as legislated based on the latest gross national income per capita (GNI) and population data available. For the 2008-2011 programming period, the 2005 GNI and population data will be used.

19. The TRAC-2 resources allocation process differs from TRAC-1, as the former are allocated based on a thorough assessment of the effective integration by country programmes of some of the criteria listed above. The relevance of the criteria is analysed in the context of national development priorities, including special development situations, and delivery and

absorptive capacities. The overall quality of programmes remains a key cross-cutting element across the three criteria.

20. Subsequent to decision 2005/26 endorsing the UNDP proposal to focus additional TRAC-2 resources on capacity development, and introducing a revised distribution for TRAC-2 resources above the base line of \$ 450 million, UNDP updated the internal TRAC-2 allocation framework to ensure that TRAC-2 resources are allocated in line with TRAC-2 legislation and based on the above criteria.

21. TRAC-2 allocation criteria are communicated to country offices to ensure that they are an integral part of the country programming process. Thus, the TRAC-2 framework is implemented within the context of the UNDP country programming process as currently defined, that is, through the common country assessment (CCA)/United Nations Development Framework (UNDAF) and country programme document/country programme action plan process. As indicated in the preceding paragraphs, the final allocation for individual countries is based on responsiveness to established criteria; programme quality and performance in programme delivery. The review process takes place at the same time for all countries across all regions.

22. The allocation of TRAC-2 resources adheres to the legislated distribution, that is, 85-91 per cent of total TRAC-1 and TRAC-2 resources to low-income countries and at least 60 per cent to least developed countries.

23. In line with decision 2005/26, out of \$550 million in available programme resources, an amount of \$100 million above the base total programming level of \$450 million for the years 2006 and 2007 was distributed equally between TRAC-1 and TRAC-2. The annual share of TRAC-1 and TRAC-2 resources, above the base programming of \$450 million, was 78.8 per cent, or \$78.8 million. An annual TRAC-2 of \$39.4 million, or a total of \$78.8 million, was therefore distributed for the years 2006 and 2007. Annex 1 shows the total TRAC-2 allocation per country from 2004 to 2007, while annex 2 presents regional shares and distribution by income categories.

24. Annexes 1 and 2 show that the 2004-2007 distributions complied with Executive Board legislation requiring that 85-91 per cent of TRAC-1 and TRAC-2 resources be allocated to low-income countries and at least 60 per cent to least developed countries. They also show that for 2006-2007, the allocation was in line with the revised distribution, in accordance with decision 2005/26.

B. Monitoring and reporting on the utilization of TRAC-2 resources

25. The criteria presented here constitute the basis for allocating TRAC-2 resources based on a qualitative analysis and review of proposals from country offices, as explained in the preceding paragraphs.

26. The focus of TRAC-2 on capacity development as the overarching contribution of UNDP to development in the four areas of intervention is expected to enhance the effectiveness and focus of UNDP-supported programmes. The criteria also provide a strong programmatic basis for country programmes to effectively support capacity development towards achieving the Millennium Development Goals.

27. TRAC-2-funded activities are not reported as separate and independent activities, since once the allocation process is completed, TRAC-2 resources become fully fungible with TRAC-1 resources. With regard to substantive monitoring and reporting, the effectiveness of UNDP support to capacity development will be monitored and reported in the context of the monitoring and reporting process connected with the strategic plan, 2008-2011.

II. Fixed lines of the programming arrangements

Background and rationale

28. In document DP/2002/WP.1, UNDP introduced to the Executive Board the concept of fixed lines with the objective of establishing fixed absolute amounts for selected programme lines. The rationale was to establish fixed earmarkings, in dollars, amounts for programme components or facilities which : " (a) are considered essential for key substantive operations at the country level within the context of the UNDP business plans; (b) require a certain critical mass of funding to function effectively; and (c) are meant to respond to essential programme or programme- related demands that are not, or are only very indirectly, affected by fluctuation in the overall magnitude of UNDP programme resources and activities".

29. In its decision 2002/18, the Executive Board endorsed and established fixed earmarkings in terms of dollar amounts for a number of programme lines as presented in the report on programming arrangements for the period 2004-2007 (DP/2002/28). The present report presents criteria and rationale for each fixed line and the proposed fixed allocations. The establishment of the fixed lines was seen as supporting a higher degree of predictability and assurance of funding, in line with the criteria proposed in DP/2002/WP.1 as presented in paragraph 25, above.

30. Decision 2002/18 resulted in fixed absolute amounts when the minimum level of available programme resources is at or above the annual target of \$450 million. The fixed lines are adjusted prorata when resources fall below \$450 million. Thus, fixed lines do not receive additional regular funding if available programme resources exceed the \$450 million target, but variable lines receive both increased relative percentages and absolute amounts.

31. In view of the significant increases in flows of all resources and associated increases in workload, all the fixed programme components have experienced increased demand for their services and functions. Nonetheless, as implied in the term 'fixed', there is a degree of rigidity in the existing formula where Executive Board allocations cannot be increased to the fixed lines without the explicit approval of the Executive Board. This tends to limit the flexibility and responsiveness of UNDP to fund potentially increased demands for services from the fixed lines. To address that issue, UNDP has proposed some real and nominal increases of the fixed lines for the 2008-2011 programming arrangements. The rationale and substantive linkage of the proposed fixed lines to UNDP programmatic work and strategic plan priorities as key criteria for each line is also articulated in document DP/2007/44, *Proposals on programming arrangements for the period 2008-2011*, paragraphs 35-51.

Criteria for establishing fixed lines

32. In the light of the above background and decision 2002/18, the main guiding principle or eligibility criterion for fixed lines is *"functions or activities that are directly linked or contribute to development effectiveness"*. In the context of ongoing discussions with the Executive Board, UNDP has proposed incorporating in the programming arrangements for 2008-2011 functions or activities that support the effectiveness of programmes that could be immediately rationalized. That approach was proposed for the following reasons:

(a) As fixed lines were established and fully recognized as 'fixed' in the context of the 2004-2007 programming arrangements, the review of what represents fixed lines takes place in the context of the time frame of the programming cycle – that is, at the beginning of each programming cycle UNDP presents to the Executive Board the list of functions proposed as 'fixed lines'. As a result, UNDP has presented a few changes to the existing list of fixed components in line with (a) definitions of certain functions harmonized with UNFPA and UNICEF in the context of the results based budgeting initiative; and (b) the need to regularize some programmatic activities identified in the context of the 2004-2007 programming arrangements and 2006-2007 biennial support budget. The latter constitute the criteria used for the proposed changes in the fixed lines for 2008-2011.

(b) UNDP has informed the Executive Board of the need to undertake a comprehensive review of its costs classification with the objective of clarifying and defining programme and management costs. Pursuant to discussions with the Board on the 2008-2011 programming arrangements, the Board has asked UNDP to present, at the first regular session 2009, proposals to realign cost classification activities funded from the programme financial framework and the biennial support budget in the context of the 2010-2011 biennial support budget preparation. That report would be the result of a comprehensive review of cost classification in UNDP, of which fixed lines of the programming arrangements are an integral part. As UNDP has not yet undertaken this exercise, it has proposed, for the 2008-2011 programming arrangements, some changes in the fixed lines limited to those areas where consensus has already been reached with United Nations partners (UNICEF and UNFPA) and the Board.

33. As a comprehensive review of cost classification will be discussed at the first regular session 2009 of the Executive Board, UNDP will revisit the existing programme financial framework and components as presented in annex 3, and the biennial support budget/results based budget functions, with a view to providing a full rationale of its cost classification and alignment of funding modalities, in accordance with decision 2007/33.

Annex 1.

Annual TRAC-2 assignments at the \$450 million and above the \$100 million level of resources, 2004-2007
(in thousands of dollars)

Region	Country	Income status	LIC status	2004		2005		2006		2007		Total		Total at and above \$450 million
				At	Above \$450 million	At	Above \$450 million	At	Above \$450 million	At	Above \$450 million	At	Above \$450 million	
Africa	ANGOLA	LIC	LIC	1,793	403	1,793	403	1,763	403	1,308	403	6,658	805	7,463
	BENIN	LIC	LIC	1,288	393	1,288	393	1,440	393	1,277	393	5,294	786	6,080
	BOTSWANA	MIC		245	66	245	66	267	66	214	66	132	132	1,103
	BURKINA FASO	LIC	LIC	2,061	653	2,061	653	2,566	653	2,121	653	8,810	1,305	10,115
	BURUNDI	LIC	LIC	2,008	613	2,008	613	1,974	613	1,993	613	7,982	1,227	9,209
	CAMEROON	LIC	LIC	986	258	986	258	1,042	258	837	258	3,850	515	4,366
	CAPE VERDE	MIC	LIC	233	180	233	180	180	68	221	68	867	136	1,003
	CENTRAL AFRICAN REPUBLIC	LIC	LIC	1,121	326	1,121	326	973	326	1,059	326	4,274	652	4,925
	CHAD	LIC	LIC	1,881	471	1,881	471	1,171	471	1,530	471	6,463	942	7,404
	COMBROS	LIC	LIC	389	99	389	99	268	99	323	99	1,368	199	1,567
	CONGO	LIC	LIC	415	118	415	118	385	118	383	118	1,598	235	1,834
	CÔTE D'IVOIRE	LIC	LIC	808	231	808	231	1,022	231	751	231	3,389	462	3,851
	DEMOCRATIC REPUBLIC OF THE CONGO	LIC	LIC	4,256	1,441	4,256	1,441	4,692	1,441	4,684	1,441	17,886	2,883	20,769
	EQUATORIAL GUINEA	LIC	LIC	233	65	233	65	177	65	212	65	856	131	987
	ERITREA	LIC	LIC	1,391	456	1,391	456	1,519	456	1,481	456	5,783	912	6,695
	ETHIOPIA	LIC	LIC	4,643	1,538	4,643	1,538	4,717	1,538	4,999	1,538	19,062	3,077	22,079
	GABON	MIC		263	74	263	74	213	74	242	74	979	149	1,128
	GAMBIA	LIC	LIC	733	188	733	188	591	188	610	188	2,667	375	3,042
	GHANA	LIC	LIC	1,668	559	1,668	559	1,862	559	1,815	559	7,013	1,117	8,131
	GUINEA	LIC	LIC	1,335	318	1,335	318	600	318	1,034	318	4,305	637	4,941
	GUINEA-BISSAU	LIC	LIC	946	265	946	265	687	265	862	265	3,441	531	3,972
	KENYA	LIC	LIC	1,811	590	1,811	590	1,849	590	1,918	590	7,389	1,181	8,570
	LESOTHO	LIC	LIC	588	191	588	191	558	191	621	191	2,327	382	2,709
	LIBERIA	LIC	LIC	1,329	331	1,329	331	1,474	331	1,075	331	5,206	661	5,867
	MADAGASCAR	LIC	LIC	2,759	574	2,759	574	1,741	574	1,864	574	9,124	1,147	10,271
	MAI AWI	LIC	LIC	2,363	766	2,363	766	2,345	766	2,488	766	9,559	1,531	11,090
	MAI	LIC	LIC	2,312	640	2,312	640	2,621	640	2,081	640	9,327	1,281	10,607
	MAURITANIA	LIC	LIC	739	278	739	278	781	278	904	278	3,162	556	3,718
	MAURITIUS	MIC		233	67	233	67	178	67	218	67	863	134	997
	MOZAMBIQUE	LIC	LIC	2,181	758	2,181	758	2,261	758	2,464	758	9,087	1,516	10,603
	NAMIBIA	MIC	LIC	263	84	263	84	313	84	272	84	1,110	167	1,277
	NIGER	LIC	LIC	2,467	692	2,467	692	2,654	692	2,248	692	9,835	1,384	11,219
	NIGERIA	LIC	LIC	3,141	1,156	3,141	1,156	3,164	1,156	3,757	1,156	13,202	2,312	15,514
	RWANDA	LIC	LIC	1,938	592	1,938	592	1,914	592	1,924	592	7,716	1,184	8,900
	SAO TOME AND PRINCIPE	LIC	LIC	245	65	245	65	177	65	212	65	879	131	1,010
	SENEGAL	LIC	LIC	1,345	401	1,345	401	1,360	401	1,303	401	5,353	802	6,155
	SIERRA LEONE	LIC	LIC	1,592	451	1,592	451	1,778	451	1,466	451	6,428	902	7,330
	SOUTH AFRICA	MIC		263	66	263	66	281	66	215	66	1,021	132	1,153
	SWAZILAND	MIC	LIC	245	73	245	73	202	73	236	73	928	145	1,073
	TOGO	LIC	LIC	1,221	342	1,221	342	1,043	342	1,110	342	4,596	683	5,279
	UGANDA	LIC	LIC	2,375	748	2,375	748	2,454	748	2,431	748	9,035	1,406	11,132
	UNITED REPUBLIC OF TANZANIA	LIC	LIC	2,388	850	2,388	850	3,163	850	2,762	850	10,701	1,700	12,400
	ZAMBIA	LIC	LIC	1,785	611	1,785	611	1,782	611	1,986	611	7,338	1,222	8,560
	ZIMBABWE	LIC	LIC	1,241	325	1,241	325	989	325	1,056	325	4,528	650	5,178
Africa total				63,530	19,253	63,492	19,253	63,193	19,253	62,566	19,253	252,771	38,506	291,277

Annex 1, continued

Annual TRAC-2 assignments at the \$450 million and above the \$450 million (additional \$100 million) level of resources, 2004-2007
(in thousands of dollars)

Region	Country	Income status	LDC status	2004	2005	2006		2007		Total		Total at and above \$450 million
						At \$450 million	Above \$450 million	At \$450 million	Above \$450 million	At \$450 million	Above \$450 million	
Asia and the Pacific	AFGHANISTAN	LIC	LDC	2,980	2,980	3,041	978	4,470	133	13,471	1,111	14,583
	BANGLADESH	LIC	LDC	3,178	3,178	4,004	1,316	4,401	1,316	14,762	2,632	17,394
	BHUTAN	LIC	LDC	700	700	635	198	661	551	2,695	748	3,444
	CAMBODIA	LIC	LDC	2,020	2,020	2,061	656	2,194	656	8,294	1,312	9,606
	CHINA	LIC		2,789	2,789	2,859	794	2,657	794	11,094	1,589	12,682
	COOK ISLANDS	MIC		31	31	27	8	27	8	116	16	132
	DEM. PEOPLE'S REP. OF KOREA	LIC		2,018	2,017	1,651	-	-	33	5,685	33	5,718
	FEDERATED STATES OF MICRONESIA	MIC		19	19	16	5	17	5	72	10	82
	FIJI	MIC		32	32	29	9	29	9	121	17	138
	INDIA	LIC		4,373	4,373	4,373	1,214	4,060	1,214	17,178	2,428	19,606
	INDONESIA	LIC		1,701	1,701	2,126	600	2,006	600	7,534	1,199	8,733
	IRAN (ISLAMIC REPUBLIC OF)	MIC		290	233	223	64	215	64	961	128	1,090
	KIRIBATI	LIC	LDC	63	63	57	19	64	19	248	38	286
	LAO PEOPLE'S DEM. REPUBLIC	LIC	LDC	1,566	1,566	1,420	442	1,879	395	6,432	837	7,269
	MALESIA	MIC		214	214	198	56	186	56	812	111	923
	MALDIVES	MIC	LDC	292	292	254	79	266	79	1,103	159	1,262
	MARSHALL ISLANDS	MIC		19	19	16	5	17	5	70	10	80
	MONGOLIA	LIC		556	556	541	171	620	375	2,273	545	2,819
	MYANMAR	LIC	LDC	3,675	2,940	2,800	913	3,054	913	12,468	1,826	14,295
	NAURU	MIC		3	3	3	1	3	1	12	2	14
	NEPAL	LIC	LDC	3,036	3,036	2,753	857	2,866	1,210	11,691	2,067	13,758
	NIUE	MIC		22	22	19	6	19	6	83	12	94
	PAKISTAN	LIC		2,793	2,793	3,090	947	3,166	1,200	11,843	2,146	13,989
	PALAU	TransSucc		4	4	4	1	4	1	15	2	18
	PAPUA NEW GUINEA	LIC		630	630	638	199	666	452	2,565	651	3,216
	PHILIPPINES	MIC		743	743	861	265	888	265	3,236	531	3,767
	SAMOA	MIC	LDC	182	182	170	58	194	58	728	116	844
	SOLOMON ISLANDS	LIC	LDC	266	266	258	87	293	440	1,082	528	1,610
	SRI LANKA	LIC		715	715	712	227	759	227	2,901	454	3,356
	THAILAND	MIC		247	247	251	71	237	71	981	142	1,123
	TIMOR-LESTE	LIC		483	483	534	170	570	170	2,070	341	2,411
	TOKELAU	MIC		54	54	47	14	48	14	201	28	230
	TONGA	MIC		20	20	17	5	17	5	74	10	84
	TUVALU	MIC	LDC	30	30	26	9	30	9	115	18	133
	VANUATU	MIC	LDC	66	66	57	20	65	96	254	115	369
	VIENTIANE	LIC		2,411	2,411	2,414	677	2,263	677	9,499	1,353	10,852
Asia and the Pacific total				36,221	37,428	38,185	11,141	38,907	12,126	152,740	23,268	176,008

Annex 1, continued

Annual TRAC-2 assignments at the \$450 million and above the \$450 million (additional \$100 million) level of resources, 2004-2007
(in thousands of dollars)

Region	Country	Income status	LDC status	2004	2005	2006		2007		Total		Total at and above \$450 million
						At \$450 million	Above \$450 million	At \$450 million	Above \$450 million	At \$450 million	Above \$450 million	
Arab States	ALGERIA	MIC		230	230	263	75	245	75	968	149	1,117
	DJIBOUTI	LIC	LDC	233	233	263	67	221	67	950	135	1,085
	EGYPT	MIC		571	571	686	194	636	194	2,464	368	2,832
	IRAQ	MIC		454	454	439	139	457	139	1,805	278	2,083
	JORDAN	MIC		233	233	264	72	237	72	968	145	1,113
	LEBANON	MIC		230	230	258	78	257	78	975	156	1,131
	MOROCCO	MIC		367	367	346	107	352	107	1,432	215	1,647
	SOMALIA	LIC	LDC	2,252	2,252	2,192	705	2,315	705	9,011	1,411	10,422
	SUDAN	LIC	LDC	2,295	2,295	2,285	716	2,350	716	9,225	1,432	10,657
	SYRIAN ARAB REPUBLIC	MIC		459	459	533	146	480	146	1,930	292	2,222
	TUNISIA	MIC		233	233	258	65	212	65	937	129	1,066
	YEMEN	LIC	LDC	1,819	1,819	2,014	535	1,755	535	7,406	1,069	8,475
	Arab States total			9,377	9,377	9,809	2,900	9,518	2,900	38,072	5,800	43,871
Latin America and the Caribbean	ARGENTINA	MIC		233	180	180	55	189	55	784	111	894
	BELIZE	MIC		21	16	16	72	32	72	85	143	229
	BOLIVIA	MIC		448	587	587	101	397	101	2,018	203	2,221
	BRAZIL	MIC		215	180	180	225	350	225	926	450	1,376
	CHILE	MIC		227	180	180	71	258	71	846	142	988
	COLOMBIA	MIC		227	298	298	89	322	89	1,144	178	1,322
	COSTA RICA	MIC		227	180	180	7	24	7	612	13	625
	CUBA	MIC		227	180	180	53	193	53	781	107	888
	DOMINICA	MIC		23	18	18	16	35	16	94	31	125
	DOMINICAN REPUBLIC	MIC		227	180	180	89	322	89	910	178	1,088
	ECUADOR	MIC		382	295	295	44	211	44	1,184	89	1,273
	EL SALVADOR	MIC		221	175	175	61	227	61	798	123	921
	GUATEMALA	MIC		24	19	19	16	37	16	99	33	132
	GRENADA	MIC		227	298	298	81	338	81	1,160	162	1,322
	GUYANA	LIC		233	298	298	31	264	31	1,092	61	1,153
	HAITI	LIC	LDC	1,203	1,534	1,534	327	1,246	327	5,517	654	6,171
	HONDURAS	LIC		372	389	389	309	583	309	1,731	617	2,349
	JAMAICA	MIC		227	180	180	53	193	53	781	107	888
	MEXICO	TransNCC		227	180	180	19	161	19	749	39	788
	MONTserrat	MIC		-	-	-	3	7	3	7	6	13
	NICARAGUA	LIC	LDC	1,063	1,355	1,355	65	801	65	4,573	129	4,703
	PANAMA	MIC		233	180	180	45	209	45	804	91	894
	PARAGUAY	MIC		227	180	180	125	350	125	938	250	1,188
	PERU	MIC		227	180	180	37	226	37	814	74	888
	SAINT LUCIA	MIC		22	17	17	15	33	15	90	29	119
	SAINT VINCENT AND THE GRENADINES	MIC		36	29	29	24	55	24	148	49	197
	SURINAME	MIC		68	53	53	61	103	61	277	122	399
	TRINIDAD AND TOBAGO	TransNCC		43	33	33	118	65	118	175	235	410
	URUGUAY	MIC		233	180	180	80	290	80	884	160	1,044
	VENEZUELA, Bolivarian Republic of	TransNCC		227	180	180	53	193	53	781	107	888
	Latin America and the Caribbean total			7,571	7,759	7,759	2,346	7,716	2,346	30,806	4,693	35,499

Annex 1, continued

Annual TRAC-2 assignments at the \$450 million and above the \$450 million (additional \$100 million) level of resources, 2004-2007
(in thousands of dollars)

Region	Country	Income status	LIC status	2004	2005	2006		2007		Total		Total at and above \$450 million
						At \$450 million	Above \$450 million	At \$450 million	Above \$450 million	At \$450 million	Above \$450 million	
Europe and the Commonwealth of Independent States	ALBANIA	MIC		319	313	380	341	398	109	1,410	450	1,861
	ARMENIA	LIC		538	621	579	97	482	132	2,219	230	2,449
	AZERBAIJAN	LIC		815	764	713	283	749	206	3,042	489	3,530
	BEARUS	MIC		262	266	248	119	252	69	1,029	188	1,217
	BOSNIA AND HERZGOVINA	MIC		336	330	307	115	344	95	1,317	210	1,527
	BULGARIA	MIC		238	253	244	117	298	82	1,053	199	1,252
	CROATIA	MIC		227	223	208	127	279	63	888	190	1,078
	EMR YUGOSLAV REP. OF MACEDONIA	MIC		227	275	256	62	245	67	1,003	130	1,133
	GEORGIA	LIC		577	870	812	127	612	168	2,870	295	3,165
	HUNGARY	TransNCC		105	103	-	-	-	-	208	-	208
	KAZAKHSTAN	MIC		238	223	208	109	226	62	895	171	1,066
	KYRGYZSTAN	LIC		1,109	921	859	429	879	242	3,768	670	4,438
	LATVIA	MIC		175	172	-	-	-	-	347	-	347
	LITHUANIA	MIC		175	172	-	-	-	-	347	-	347
	MONTENEGRO	MIC		-	-	320	97	322	88	642	186	828
	POLAND	MIC		350	350	-	-	-	-	700	-	700
	REPUBLIC OF MOLDOVA	LIC		636	624	582	310	627	172	2,468	482	2,951
	ROMANIA	MIC		238	275	256	53	237	65	1,006	118	1,124
	RUSSIAN FEDERATION	MIC		280	275	256	88	275	76	1,086	163	1,250
	SAINT HELENA	TransNCC		36	35	-	-	-	-	71	-	71
	SERBIA	MIC		736	722	674	205	677	186	2,809	391	3,199
	SLOVAK REPUBLIC	MIC		110	112	-	-	-	-	222	-	222
	TAJIKISTAN	LIC		1,283	1,259	1,174	570	1,147	315	4,862	885	5,748
	TURKEY	MIC		220	216	256	90	275	76	967	165	1,133
	TURKMENISTAN	MIC		389	365	341	146	344	95	1,440	241	1,680
	UKRAINE	LIC		1,003	984	1,461	-	1,002	275	4,449	275	4,724
	UZBEKISTAN	LIC		1,102	1,107	1,033	309	1,031	284	4,275	593	4,867
Europe and the Commonwealth of Independent States total				11,744	11,831	11,168	3,793	10,651	2,927	45,394	6,720	52,113
Grand total				130,434	129,886	130,104	39,433	129,358	39,552	519,782	78,985	598,767

Note: Additional TRAC-2 was assigned to Montenegro for 2006 and 2007 when the country became independent in 2006.

Annex 2

Total TRAC-2 distribution, 2004-2007

(in thousands of dollars)

Category/region	Thousands of dollars*	As a percentage of total TRAC-2
Low-income countries	526,056	88.2%
Middle-income countries	70,328	11.8%
Total	596,385	100.0%
Least developed countries	364,744	61.2%
Africa	291,277	48.8%
Asia and the Pacific	175,990	29.5%
Arab States	43,871	7.4%
Latin America and the Caribbean	33,412	5.6%
Europe and the Commonwealth of Independent States	51,834	8.7%
Total	596,385	100.0%
Transitional net contributor countries (NCCs)	2,383	n/a
Grand total, including transitional NCCs	598,767	n/a

Annex 3

Fixed lines (from table 6 of document DP/2007/44)

(\$ millions, in nominal terms)

	2008-2011 \$700m baseline
Fixed lines	\$
Line 1.4 – Evaluation	-
Line 1.5 – South-South cooperation programme	4.5
Line 1.6 – Human Development Report Office	6.7
Line 1.6 – Office of Development Studies	1.8
Line 1.6 – Economist programme	7.0
Line 1.8 – Programme of Assistance to the Palestinian People	3.2
Line 1.8 – Gender mainstreaming	3.2
Line 3.1.1 – Development support services	7.0
Line 3.1.2 – Support to resident coordinator	16.0
Total fixed lines	49.4



**Executive Board of the
United Nations Development
Programme and of the
United Nations Population Fund**

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Recommendations of the Board of Auditors

**UNDP: Report on the implementation status of the
recommendations of the Board of Auditors, 2004-2005**

Report of the Administrator

Summary

Pursuant to Executive Board decision 2007/10, the present report provides an update of audit implementation status as well as key management measures undertaken in addressing the main recommendations raised by the United Nations Board of Auditors (BOA) for the biennium ended 31 December 2005 (A/61/5/Add.1). Since the last update to the Executive Board in January 2007 (DP/2007/14), UNDP has achieved a 91 per cent implementation rate (105 out of 115 audit recommendations). Except for one recommendation that has taken longer than expected, UNDP has implemented all recommendations targeted for completion by the third quarter of 2007. UNDP is on target to implement the remaining 9 per cent, or 10 audit recommendations, by the fourth quarter of 2007.

The present report also provides updates to key areas of interest, as specifically requested by the Executive Board (DP/2007/10), and progress made on strategic management interventions. These include: the adoption of a common and simplified operational framework within the Executive Committee agencies for transferring cash to government and non-government implementing partners using the Harmonized Approach to Cash Transfer (HACT) framework; the proposed risk-based approach to the audit of nationally executed projects, as encouraged by the Audit Advisory Committee; the phased implementation of subregional shared service centres to support selected country offices with capacity issues, especially in financial management and bank reconciliation; the investment in staff professional certification programmes in conjunction with the planned adoption of the International Public Sector Accounting Standards (IPSAS); the planned implementation of a risk-based unit workplan process as part of the enhanced results-based management initiative; and the implementation of an oversight system and other measures to enhance internal controls in the Atlas system.



Elements of a decision

The Executive Board may wish to note the progress made by UNDP in implementing the recommendations made by BOA for the biennium ended 31 December 2005, and the specific efforts made by management to address the recommendations made, as well as the progress in implementing a specific strategy to address underlying systemic issues.

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Introduction

1. Pursuant to Executive Board decision 2007/10, this paper provides an update of audit implementation status as well as progress made in the implementation of key management measures initiated in addressing the main recommendations raised by the United Nations Board of Auditors (BOA) for the biennium ended 31 December 2005 (A/61/5/Add.1). The management updates provided in this report have also taken into account the comments of the Fifth Committee (through the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) (A/62/355), the status report submitted by BOA to the September 2007 session of the General Assembly (A/62/120,) and the first annual report of the UNDP Audit Advisory Committee (AAC). The report is organized as follows:

Chapter I. Status of implementation of the audit recommendations. An update of the implementation status of the audit recommendations made by BOA for the biennium 2004-2005 since the last update to the Executive Board in January 2007;

Chapter II. Review of progress made in addressing specific areas of interest to the Executive Board. An update of specific management actions in addressing the specific areas identified by the Board (DP/2007/14) as well as a review of management actions initiated to address the main audit recommendations of BOA. The detailed management responses are available as a separate annex (accessible on the website of the Executive Board secretariat).

Chapter III. Review of key initiatives taken to strengthen accountability and organizational responsiveness to audit recommendations in UNDP. This section reviews specific initiatives undertaken by UNDP management in strengthening the culture of accountability and organizational responsiveness to audit recommendations in UNDP.

I. Status of implementation of the audit recommendations

2. In line with the direction provided by the Executive Board (DP/2007/10), UNDP has taken "rapid action to fully implement the audit recommendations within the prescribed time frame". Of the 115 recommendations made by BOA with respect to UNDP accounts for the biennium 2004-2005 (A/61/5/Add.1), UNDP had implemented or otherwise addressed 105 (91 per cent), while 10 (9 per cent) are still in progress. UNDP has implemented all but one of the recommendations targeted for completion by third quarter 2007, and is on target to implement the remaining 9 per cent, or 10 audit recommendations, by the fourth quarter 2007 (see table on page 4).

Implementation status by priority and target completion date

Priority	Implemented * (a)	In progress (b)	In progress by target completion date		Grand total (a) + (b)
			Due Q3, 2007	Due Q4, 2007	
High	25	5	1	4	30
Medium	78	4		4	82
Low	2	1		1	3
Grand total	105	10	1	9	115
% of total	91%	9%			100%

* 'Implemented' includes 17 recommendations pursued on an ongoing basis, as well as two that were overtaken by the event of the partial merger of LAPSO and UNOPS.

3. Of the 10 remaining audit recommendations, the five high-priority (main) audit recommendations to be addressed by end of 2007 include: (a) the formalization of risk based audit planning methodology for nationally executed (NEX) projects; (b) the implementation of the results-based budgeting to strengthen the linkage between financial expenditures and project results within the enhanced results based management system; (c) the development of procurement benchmarks for both exigency and normal situations; (d) the development of guidelines for the implementation of mandatory procurement plans in UNDP; and (e) the planned migration of the 'Systems, Applications, Products' data processing system, used by Brazil, to Atlas for full, integrated financial and results reporting starting in 2008.

II. Review of progress made in addressing specific areas of interest to the Executive Board

4. As requested by the Executive Board in DP/2007/10, paragraphs 2-9, the present report comprises the management response and status update on progress made by UNDP in addressing specific areas of interest to the Board, namely: (a) nationally executed projects, (b) bank reconciliations, (c) internal controls in Atlas; and (d) progress in mainstreaming risk management into UNDP policies and processes.

Nationally executed projects

5. *Procedural simplification and harmonization with the adoption of the Harmonized Approach to Cash Transfer (HACT) framework.* Pursuant to General Assembly Resolution 56/201 on the triennial policy review of operational activities for development of the United Nations system, UNDP, UNFPA, the United Nations Children's Fund and the World Food Programme (United Nations Development Group Executive Committee Agencies) adopted the HACT framework for transferring cash to government and non-government implementing partners. The year 2007 is the first year in which countries with harmonized programme cycles starting in 2007 are required to implement HACT. Other countries with non-harmonized programme cycles are required to do so by 2008. Its

implementation is expected to reduce transaction costs and lessen the burden that the multiplicity of United Nations procedures and rules creates for its partners. Implementing partners will use common forms and procedures for requesting cash and reporting on its utilization. The harmonized funding agreement and certificate of expenditures form simplifies the paperwork to authorize expenditure by or transfer cash to implementing partners. Jointly conducted assessment (macro- and micro-level) and assurance activities will further contribute to more effective risk mitigation. In collaboration with the other Executive Committee agencies, UNDP will use the results of the macro and micro assessments under HACT to identify areas for capacity building in government institutions, to coordinate resource mobilization and to manage fiduciary risks. The results will also be used to determine the different modalities of cash disbursement and the scope of assurance activities. The adoption of the new harmonized approach is a further step in implementing the Rome Declaration on Harmonization and the Paris Declaration on Aid Effectiveness, which call for a closer alignment of development aid with national priorities and needs.

6. *Planned implementation of a risk-based approach to audit of NEX projects.* In line with efforts to streamline risk management into UNDP policies and practices, and building upon the risk-based country office audit planning methodology implemented since 2006, the Office of Audit and Performance Review (OAPR), as recommended by the United Nations Board of Auditors (BOA) and subsequently encouraged by the Audit Advisory Committee, has proposed a risk based assessment model for the audit of NEX projects. Up to now, all NEX projects with expenditure in excess of \$100,000 have been selected for audit. In addition to the high volume of NEX projects to be audited annually (approximately 1,700, at a cost to UNDP of close to \$3.9 million annually in audit fees payable to appointed professional audit firms), the current single-threshold, monetary value-based audit requirement policy does not take into consideration relevant risk factors associated with NEX projects in programme countries. The proposed risk-based assessment model takes into consideration quantitative factors – such as past audit performance and magnitude of long-outstanding NEX advances – as well as qualitative factors such as the quality of NEX auditors in previous audits and timeliness of audit follow-up. The proposed risk assessment model is expected to apply a multi-tiered financial threshold for audit based on results of risk assessments. The proposal is currently being reviewed by BOA and is expected to be implemented in 2008.

7. *Enhanced NEX audit support at regional audit centres and tracking of NEX audit performance on the 'balanced scorecard'.* Strengthening NEX and non-governmental organization (NGO) support at the country office level is one of the key areas currently under review by the NEX task force commissioned by the Associate Administrator. Among the key proposals are: a feasibility and cost-effectiveness review of the proposed regionalization of NEX/NGO audit support through the five Regional Audit Service Centres. Audit professionals at the Centres will play central roles in the quality review of the terms of reference of NEX audits drafted by UNDP country offices; in clarifying technical queries from external audit firms appointed to conduct NEX/NGO audits; and in identifying

region-specific NEX audit issues for management action. The involvement of the Centres is expected to facilitate more timely management interventions with a shorter turnaround time for the issuance of NEX evaluation letters, which is currently being managed at the OAPR NEX unit in New York. In addition to regular quarterly status updates to the regional bureaux by OAPR, NEX audit performance and follow-up will be added as a key indicator in the unit-based balanced scorecard.

Bank reconciliation and staff professionalization programmes

8. *Targeted support to country offices with limited capacity in completing bank reconciliation for 2006 year-end closing.* In 2006-2007, UNDP management invested considerable attention and effort in addressing the observation by BOA on the non-performance of monthly bank reconciliations. Besides completing the bank reconciliation for all 615 bank accounts for the period 2004-2005 in May 2006, UNDP made comprehensive efforts to address system issues, including simplifying the bank reconciliation process and providing additional training and support for country offices with limited capacity. In addition, the Office of Finance and Administration (OFA), together with professional accountants from external firms, provided targeted assistance to country offices to enable them to complete their 2006 bank reconciliations. In a handful of cases, the bank reconciliation process was temporarily centralized in OFA for the purpose of facilitating the 2006 year-end closing. As at March 2007, all UNDP country offices had completed their bank reconciliation up to December 2006, compared to 42 country offices outstanding at the same time last year.

9. *Professional certification programme for staff and establishment of subregional shared service centre.* The varying level of internal staff capacity continues to be a common issue in internal and external audits alike. It is recognized certain factors have given rise to highly complex business processes requiring a higher level of staff competency and Atlas knowledge, including the following: an exponential growth in delivery volume; a surge in non-core funding; the move to results-based management; and the expanding role of UNDP in United Nations coordination and in crisis countries. There is a need to invest in more sustainable ways of increasing internal staff capacity to deal with the higher expectations of our staff. Since 2006, in anticipation of IPSAS implementation in UNDP by 2010, and in an effort to invest in our staff development, UNDP has launched a number of professional certification programmes in which staff are required to study and take a written examination to test their functional knowledge and skills. As at September 2007, close to 2,000 staff were certified in project management; more than 805 professional staff were certified; and another 200 had enrolled in a human resources certification programme. In addition, around 400 finance staff have enrolled in the Financial Training and Certification Programme. In addition to staff professionalization programmes, the Bureau of Management is working with the regional bureaux in establishing subregional shared services centres to deliver more sustainable, cost effective approaches to building internal capacity.

Atlas and internal controls

10. In 2006-2007, UNDP established a number of safeguard measures to address the key internal control concerns raised by BOA. These included: (a) reinforcing the internal control framework guidelines at regional and management training workshops; (b) enhancing the Atlas user's security management system to ensure non-conflicting security profiles when processing user accounts; (c) implementing additional audit trail features in the Atlas system to track changes to vendor records, bank accounts and foreign exchange documents; (d) implementing a security question feature for forgotten password requests to better manage potential abuse of access to Atlas; (e) implementing an industry-tested oversight system to track potentially questionable transactions in Atlas and infringement of internal control framework guidelines (f) releasing more specific guidance on the required segregation of duties for asset management and requisition in e-procurement, and (g) managing external access to Atlas within a system control environment. Worthy of specific mention here are the following:

11. *Enhancement of security features in Atlas.* In 2006, UNDP enhanced its Atlas security management system by enforcing the implementation of non-conflicting user roles when assigning user rights to Atlas users. This reinforced the principles of segregation of duties in the internal control framework. In addition, audit trail features were enhanced to track changes to key control documents such as bank accounts and details in vendor records and foreign exchange documents, among others. Security questions and mandatory password changes were implemented to prevent fraudulent use of another Atlas user's access rights and abilities.

12. *Implementation of industry-proven oversight monitoring system.* At the corporate level, UNDP is implementing an oversight monitoring system that will enable management to better monitor and flag unusual transactions, including potential duplicate payments, suspicious vendor records, and non compliance with established financial policies. The system also facilitates data correction at the earliest possible time.

Mainstreaming risk management in UNDP

13. UNDP continues to build on efforts initiated in 2006-2007 in mainstreaming risk management into our policies and practices. 'Enterprise risk management' is an important approach to identifying risks proactively and managing them systematically, thus better achieving objectives while protecting stakeholder interests. The UNDP Risk Management Committee, established in June 2006 and chaired by the Associate Administrator, provides strategic direction and guidance towards that end.

14. In the area of project and programme risk management, UNDP is leveraging the Atlas system to track project risks at the country office levels. Corporate guidelines are being formalized to escalate key risks up the reporting lines based on pre-determined risk profiles. UNDP will also continue to refine the recently approved UNDP evaluation policy (DP/2006/28) to manage programmatic risks by ensuring that all country programmes are supported by a clear monitoring and evaluation plan when presented to the Executive Board for approval. Key 2008 initiatives to further mainstream risk management in our programmatic areas include:

institutionalized enterprise risk management policy, guidelines and online portal (for tracking selected risk areas); risk-based unit-level work planning; and a corporate risk manager training programme.

15. In the area of financial management, key financial risks such as bank reconciliations and outstanding NEX advances are tracked using the Atlas 'dashboard'. Financial and mitigation strategies are discussed in quarterly financial reviews with regional bureau directors. A quarterly financial one-pager for country resident representative is being prepared by OFA to enable the office to focus on specific current and emerging financial risks. In addition, the UNDP balanced scorecard continues to be enhanced to track and report on performance against organizational risks, including NEX audit results and audit implementation rates at the country office level. In the area of procurement and contract management, UNDP continues to sharpen its fraud policy, codified since 2005, to clarify responsibility for reporting allegations of fraud. Specific anti-fraud and anti-corruption guidelines have been detailed in recent updates of the UNDP procurement and contract management user guide to deal with potential risks of fraud and corruption in procurement, especially in emergency and crisis situations. In addition, UNDP has established and disseminated formal procurement protest procedures for suppliers or organizations wishing to file specific complaints against UNDP procurement policies or processes, including specific procurement awards.

16. In the area of human resources management and ethics, UNDP identified a number of accountability instruments in 2007, with the objectives of reinforcing expectations of ethical standards and professional conduct, and promoting greater transparency and care in our business processes. Key initiatives rolled out or to be rolled out in 2007-2008 include: (a) An interactive 'Ethics and Code of Conduct' training module (currently being piloted) for all staff; (b) the financial disclosure policy announced by the Administrator in May 2007, which mandates critical staff (including the Chair of Contract Approval Committee at headquarters and in country offices) to file financial disclosure statements, and stipulates that relevant voting members of procurement committees at throughout the organization file statements of impartiality; and (c) the UNDP legal framework for addressing non-compliance with United Nations standards of conduct, released on 22 September 2007, which updates and replaces the Accountability and Disciplinary Measures and Procedures that were approved on 1 January 2004 that have been codified since 2004.

III. Review of key initiatives taken to strengthen accountability and organizational responsiveness to audit recommendations in UNDP

17. UNDP is committed to strengthening accountability and organizational responsiveness to audit recommendations within its overall accountability system. UNDP has demonstrated its management commitment to implementing the BOA audit recommendations with strategic initiatives to address underlying structural and capacity issues arising from our analysis of the audit observations. In addition, UNDP took steps in 2006-2007 to strengthen management oversight of audit issues and implemented relevant management tools and processes. These included: (a) leveraging the independent recommendation and feedback of the independent Audit Advisory Committee on key strategic initiatives and related oversight matters; (b) formalizing the regular review of the "top 15 audit priorities" and accountability matrix for audit follow-up, including regular review at the Operations Group meeting chaired by the Associate Administrator¹ to address underlying systemic issues; (c) using the web-based UNDP 'audit dashboard' to promote accountability and transparent reporting of audit implementation status by responsible managers and offices; and (d) formalizing periodic country scans to better understand the programmatic, financial, human resource challenges and audit issues for all UNDP country offices

Leveraging the recommendation and feedback of the independent Audit Advisory Committee on key strategic initiatives and related oversight matters

18. Established in June 2006, the UNDP Audit Advisory Committee (comprising five qualified external professionals from public and private organizations) continues to be a central component of our institutional oversight policy. The Committee has had a significant impact, and UNDP senior management has benefited from the independent, constructive and useful interaction during and between the six formal Committee meetings since June 2006. During that period, the Committee reviewed the OAPR audit strategy for 2006-2008; endorsed its annual work plan; and held dialogue with the United Nations Board of Auditors on matters of common concern. It has provided specific comments and recommendations on our approach to the mainstreaming of enterprise risk management, our fiduciary risks associated with NEX projects and, more recently, the change management strategy for the phased roll-out of IPSAS, the draft UNDP accountability framework and the draft oversight policy.

Top 15 audit priorities and formal accountability matrix for audit follow-up

19. The top 15 audit priorities and the accountability matrix for audit follow-up that was presented to the Executive Board at the annual session 2007 as part of the management response to the OAPR report, have been

¹ The practice of identifying a list of top audit issues and the implementation of strategic initiatives to address causes of recurring audit observations were cited by BOA in its report to the General Assembly (A/62/120, paragraph 14) as examples of good practice in the implementation and follow-up of audit recommendations.

useful in providing organizational focus in addressing the key audit concerns. The list is used by the Operations Group (chaired by the Associate Administrator) to monitor progress and to identify systemic audit risks and emerging trends. In line with efforts to clarify accountability in UNDP, the accountability matrix helps elucidate lines of responsibility and accountability for management responses to audit recommendations and expected audit follow-up action. The matrix also specifies the accountability of directors of the regional and headquarters bureaux and resident representatives to the Associate Administrator for prompt management interventions on audit issues and of the Director of OAPR for timely, high-quality audit reports and performing regular analysis of those reports. The list is expected to be reviewed and updated following the 2006-2007 biennium audit.

Use of web-based audit dashboard for transparent reporting and audit follow-up

20. In addition to establishing target completion dates for the implementation of all audit recommendations, the office and staff or managers responsible for taking specific actions are identified on the web-based audit dashboard. The current practice of reporting transparently using a web-based dashboard and regular management review is in line with the recommendation by ACABQ to the Secretary General (A/62/355, paragraph 18) for institutionalizing a follow-up mechanism comprising a regular reporting to a "standing committee" and the adequate use of information technology system to "track audit implementation in real time" with "monitoring throughout the year".

Formalization of periodic country scans

21. Started in early 2007, the periodic country scans enables the Associate Administrator to meet with senior management teams in each bureau understand the unique challenges facing specific countries in their regions. The scans are based on multiple sources of information, such as programmatic delivery figures from an Atlas 'snapshot'; financial performance data from the Atlas dashboard; audit performance results from OAPR and NEX evaluation reports; and the status of the staff professionalization programme from the Learning Resource Centre. The scans provide a shared view of the challenges and management actions required to strengthen financial accountability and sustainability, human resource management and programme management in country offices.

IV. Conclusion

22. UNDP is committed to strengthening accountability and organizational responsiveness to audit recommendations within its overall accountability system. UNDP is formalizing audit follow-up as a key performance indicator in its strategic plan, 2008-2011, to address the top 15 audit priorities with strategic, timely management interventions. UNDP is committed to implementing the audit recommendations of the Board of Auditors (A/61/5/Add.1) within the prescribed time frame and to complementing it with the implementation of strategic initiatives to

address underlying structural and capacity issues arising from our analysis of the audit observations.

23. UNDP will continue to invest in staff capacity building and professionalization programmes, develop alternative and more sustainable measures such as the regional shared services centres to support bank reconciliations and other core business areas.

24. UNDP is committed to working closely with government implementing partners to support the goals of national capacity building. There are challenges as well as opportunities ahead especially in the areas of nationally executed projects. While the implementation of harmonized programming arrangements and the harmonized cash transfer modality is aligned with current OECD/DAC practices, the implementation is still in progress in some country offices. In many cases, the country offices have no direct control over the implementation of audit plans by national implementing partners. UNDP will, in consultation with the Audit Advisory Committee and BOA review specific changes to the current policies and practices in NEX and NEX audits, and will continue to seek the support of the Executive Board in implementing relevant measures including resources to strengthen NEX oversight support in UNDP country offices, headquarters and the five regional audit service centres of OAPR.



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Internal audit and oversight

The UNDP accountability system*

Summary

The present report introduces the enhanced, integrated UNDP accountability system, which includes: (a) a draft accountability framework, and (b) an enhanced oversight policy. UNDP accountability is premised on its responsibility to stakeholders, its programme countries and donors, and its contribution to the achievement of national development priorities. UNDP accountability is operationalized at the country level through its development activities, and at the corporate level through accountability to its Executive Board. The draft accountability framework encompasses organization-wide processes for monitoring, analysing, and improving performance in all aspects of organizational policy, management processes and operational procedures in support of the updated UNDP strategic plan, 2008-2011. The enhanced oversight policy describes how independent internal and external oversight is organized in UNDP to provide assurances to the Executive Board and the Administrator that functional systems of internal controls are in place in the organization. The policy outlines the institutional set-up of independent internal and external oversight bodies (audit and evaluation), standards of conduct and disclosure of internal independent oversight reports.

Elements of a decision

The Executive Board may wish to: (a) take note of the draft accountability framework and enhanced oversight policy and (b) express continuing support for strengthening the oversight and assurance functions.

*The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present document.



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I. Introduction to the UNDP accountability system

1. This document presents an enhanced and integrated UNDP accountability system that includes (a) a draft accountability framework, and (b) an oversight policy. The document responds to Executive Board decision 2007/32 on the updated strategic plan which requests a discussion and consideration of a draft UNDP accountability framework at the first regular session 2008. The document also responds to decision 2007/29, in which the Board requested UNDP, UNFPA and the United Nations Office for Project Services (UNOPS), respectively, to submit for consideration and approval at its first regular session 2008, an "oversight policy that also defines the concepts of accountability and transparency as well as disclosure and confidentiality" in the management of the operational activities of each organization.

Premise of UNDP accountability

2. Accountability in UNDP is premised on its responsibility to stakeholders, programme countries and donors, and on its contribution to the achievement of national development priorities. This is operationalized at the country level through its development activities and at the corporate level through its accountability to the Executive Board¹. UNDP recognizes the increased international focus on accountability within the evolving aid and development environment. The accountability of UNDP is informed by General Assembly resolution 59/250 on the triennial comprehensive policy review, which articulates that national governments have the primary responsibility for the development of their countries, and for development outcomes. In addition, recipient governments bear the primary responsibility for coordinating external assistance on the basis of national strategies and priorities.

3. UNDP is accountable for contributing to those results in the most relevant, efficient and effective way. UNDP is therefore committed to enhancing accountability within the organization and in all its operations and partnerships, and to promoting shared goals between donors and recipients, in order to enhance participation and transparency.

Commitment of UNDP to accountability

4. Accountability² has always been embedded in the structure of UNDP and its operational procedures. While commitment to accountability has not changed; the context has been dynamic, and its formulation, application and enforcement have evolved in the last six decades. The commitment to institutional accountability has been further bolstered by the General Assembly, which established the basis for an accountability framework through resolution 57/270 B and the report of the Secretary-General (A/60/312)

5. The 1997 report to the Executive Board (DP/1997/CRP.13) provided a framework for further strengthening accountability mechanisms in the context of UNDP as a decentralized organization. The report called for the introduction of new management systems for planning and programming, financial resource management, human resource management, material resource management, oversight – including audit and evaluation – and the internal justice system, which the Executive Board noted at its annual session 1997. That strategy followed the harmonized terminology for results-based management proposed by the United Nations Development Group (UNDG). Against this background, UNDP updated

¹ The Executive Board of UNDP and UNFPA, comprised of 36 members, was created by General Assembly resolution 48/162 of 20 December 1993. Comprising both programme countries and donor countries, the geographic breakdown of membership was legislated by General Assembly resolution 48/162: 8 from African States, 7 from Asian and Pacific States, 4 from Eastern European States; 5 from Latin America and the Caribbean States; and 12 from Western European and other States

² The Organisation for Economic Co-operation and Development (2002) defines accountability as "the obligation to demonstrate that work has been conducted with agreed rules and standards or to report fairly and accurately on performance results vis-à-vis mandated roles and/or plans".

some of its management processes and administrative procedures that taken together helped strengthen its accountability system further. Those improvements were integral to the ongoing efforts to update results-based management in UNDP.

6. The decentralized operations of UNDP enable its country offices to work with programme governments to find their own solutions to global and national development challenges. In such a decentralized environment, the need for ongoing enhancement of the UNDP accountability system is vital to ensuring full accountability and transparency³ in UNDP operations.

7. UNDP has therefore established an organizational accountability system to support increased transparency, clarity and alignment of all organizational activities, in accordance with the guidance provided by international practice, standards and new institutional systems. This organization-wide accountability system is aligned with the updated strategic plan, 2008-2011. The organization will monitor, assess and report on progress toward the achievement of stated goals, compliance with best practice in oversight principles, and the effectiveness of programme evaluation measures.

Components of the enhanced, integrated accountability system

8. The UNDP accountability system includes the following:

- (a) A draft **accountability framework** that describes organization-wide processes for monitoring, analysing, and improving performance in all aspects of organizational policy, management processes and operational procedures in support of the UNDP strategic plan; and
- (b) An enhanced **oversight policy**, which details the specific procedures, tools and timing for providing UNDP management its stakeholders with independent assurance and evaluation at all levels of UNDP programmatic interventions.

9. The updated UNDP accountability system is designed to:

- (a) ensure that programmes are aligned with the updated strategic plan in support of the internationally agreed development goals, including the Millennium Development Goals, while fully responding to national development priorities;
- (b) ensure that planning is guided by a data-driven, results-oriented process that periodically analyzes data to assess results or progress toward goal achievement;
- (c) ensure that managers and practitioners are held accountable for their decisions and actions;
- (d) assess the effectiveness and efficiency of the management functions;
- (e) ensure that programs adhere to system principles and other pertinent rules and regulations;
- (f) implement a plan for addressing issues or problems identified during accountability reviews or audits; and
- (g) Ensure planned review of accountability capabilities and areas for further organizational learning.

10. The accountability system relies on the strategic integration of multiple accountability activities that together form the basis for a structured, comprehensive review of programmes throughout UNDP. It serves as the primary source for performance standards, metrics, reporting requirements, and the monitoring and evaluation process that will ensure

³ **Transparency** is the condition necessary for ensuring accountability that is achieved through (a) reliable, relevant and timely information about the activities of UNDP; (b) openness about policy intentions, formulation and implementation; and (c) proper assurance mechanisms.

that planning and implementation are guided by data-driven, results-oriented processes. This will be complemented by a planned review of accountability policies, processes and practices across the 10 elements of accountability, including risk management.

11. Accountability activities cover all UNDP activities in all locations and include a robust, independent, cyclical audit and evaluation schedule. The results of these accountability activities will document the extent to which goals are being met and how they will be used to drive continuous improvement throughout UNDP.

12. The updated UNDP accountability system recognizes current best practices in the public sector that specifically stress:

- (a) The call for an increased focus on *results and performance-based management* by the public sector, in addition to addressing concerns with the integrity of governance;
- (b) The call for providing greater *flexibility and autonomy* to government organizations and managers in order to achieve better results; and
- (c) The importance of *transparency* as an essential feature of public sector accountability.

II. The UNDP accountability framework

A. Accountability principles

13. The updated strategic plan, through which programming, management and United Nations coordination results are established, is the basis of the UNDP accountability framework. It builds on a dynamic cycle of organizational and unit work planning, an enhanced, integrated performance monitoring and results reporting system on UNDP work in various areas, and progress in achieving agreed outputs. It is complemented by oversight policies and mechanisms with defined timelines for communication with the Executive Board and senior management, including the annual cycle of quality review on accountability and identification of any improvements required. Underpinning the accountability framework are the shared values and culture of accountability, supported by a set of guiding principles, formally documented functions, responsibilities, authority and management expectations, enabling policies, processes and accountability instruments to enhance capacity-building and continuous learning. The UNDP accountability framework will entail enhanced reporting to the Executive Board and UNDP partners to satisfy the legislative obligations of UNDP, internal monitoring of its performance against plans and budgets, and compliance with UNDP operational policies and procedures.

14. *An integrated system of organizational, programmatic and staff accountability.* The UNDP accountability framework is based on a hierarchy of three tiers of accountability with clearly defined responsibilities and supporting mechanisms:

(a) *Organizational accountability.* UNDP (through the Administrator and the Associate Administrator, individually and collectively) is accountable to the Executive Board for management direction and for achieving the agreed results of the updated strategic plan.

(b) *Programmatic accountability* builds on the premise that the accountability for overall development outcomes rests with the government, whereas there is joint accountability between the government and UNDP for the portion of programmes/outcomes funded by UNDP. At the country level, UNDP works collaboratively with programme country governments in determining agreed-upon development results.

The heads of UNDP offices, in turn, are accountable to the regional bureaux for contributions towards meeting the agreed-upon development results. Their accountability will include the applied development standards and approaches, country programme documents, action plans and annual work plans developed with the government or with programme outcome boards and project committees chaired by Government.

(c) *Staff accountability.* Individuals (including managers) in UNDP are accountable to the organization for expected ethical and professional conduct, and to their managers on how they discharge the authorities conferred upon or delegated to them in delivering agreed performance results and budgets

15. The UNDP accountability framework is guided by a set of **six core accountability principles** which form the foundation of the Accountability Framework and provide the basis for the implementing of enabling accountability policies, processes and instruments:

(a) *Mutual accountability and clarity of organizational responsibility.* UNDP as well as implementing partners and programme country governments have distinct responsibilities for delivering on their respective obligations. Within UNDP, clear organizational policies and behavioural guidelines that describe the personal skills and organizational competencies required to carry out UNDP work activities are established.

(b) *Alignment with corporate goals and accountability.* Managers are accountable for achieving corporate goals across units, irrespective of their functional positions.

(c) *Formal and consistent delegation of authority.* Authorities, responsibilities and accountabilities are clearly defined, formally delegated and consistent. This includes acknowledgement by all staff of:

(i) Segregation of duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing official transactions are segregated among individuals and between managers and responsible staff;

(ii) Self-informing duty. Authorities inform themselves for decision-making in accordance with recognized standards. For example, managers cannot claim ignorance of established policies or procedures.

(d) *Cost-benefit considerations in decision-making.* Related to the issue of proportionality between the cost of a process and the value of the intended result, this principle seeks to focus limited administrative resources on the highest priority issues.

(e) *Reliable and verifiable performance monitoring and reporting.* Authorities disclose their performance through adequate, regular reporting on results, with timely accounts and reliable financial and substantive reports. Documentation is clear and readily verifiable.

(f) *Highest standards of personal integrity (self-attestation and ethical conduct).* The exercise of authority by managers relies on the principle of self-attestation. For example, the manager submitting the results of a procurement process for approval is, by doing so, attesting that funds are available and that the procurement is relevant to project objectives. Individuals declare potential conflicts of interest according to ethical standards.

16. **Clear set of key stakeholders and managerial expectations.** In discharging its governance and oversight role, the Executive Board will hold UNDP for: (a) providing organizational vision and direction following consultations with its various constituencies, as articulated through the updated strategic plan and supporting plans; (b) implementing organizational policies and country, regional and

global development programmes presented to the Board; (c) delivering on the agreed performance targets, articulated in the development results framework and the results-based budgeting framework; (d) managing relations with UNDP partners; (e) demonstrating proper stewardship of resources entrusted; (f) ensuring adherence to ethical values consistent with the United Nations Charter; (g) exercising responsible risk management; (h) establishing quality assurance processes in programmatic and operational matters, including commissioning country-level evaluations; (i) applying lesson learned and managing change in the office; and (j) developing people to deliver on the UNDP mandate.

17. ***Shared values and culture of accountability.*** UNDP has in place a set of enabling accountability policies, procedures and instruments to strengthen accountability at the organizational, managerial and staff levels. The foundation of our actions (individually and collectively, as an organization) will be founded on shared values and the internalized culture of accountability to our stakeholders, our programme country governments and our staff.

B. Internal accountability arrangements

18. A number of policies, procedures and instruments inform the internal accountability arrangements. These guide UNDP staff in their daily work and are divided into two areas: process management and staff management.

Process management

19. The *UNDP regulatory framework* is approved by the Executive Board/General Assembly, and includes Financial Regulations and Rules, staff rules and decisions of the Executive Board.

20. The *UNDP prescriptive content management system* provides policy clarification, operational standards and procedural guidance to UNDP offices in the execution of UNDP core business processes. It is derived from the regulatory framework above. These include guidance on target-setting and reporting under the results management framework, results based budgeting, financial resource management, procurement and contract management, human resource and payroll management, security, etc.

21. *Internal control provides a foundation for accountability.* The *UNDP internal control framework* (formalized in its current form in 2005) defines UNDP-specific policies, procedures, monitoring and communication activities, standards of behaviour and other activities, including: (a) Execute orderly, ethical, economical, efficient and effective operations; (b) Safeguard assets from inappropriate use and loss from fraud and error; (c) Help ensure the quality of internal and external reporting, through the maintenance of proper records and information flows; and (d) Ensure compliance with applicable laws, regulations and internal policies. The framework prescribes responsibilities, authorities, and accountability of managers and staff in different roles in the execution of programmatic, financial, procurement, human resources and payroll functions. In addition, UNDP has instituted numerous control mechanisms to strengthen its preventive capabilities, including role-based user access rights and accounts management, user log-in account authentication, 'audit trails' in Atlas, and implementation of a leading industry monitoring and detection tool for tracking unusual transactions. Oversight of the application by country offices of the internal control framework and other control mechanisms is provided by the regional bureaux.

22. *Programme formulation, project design, monitoring, evaluation and reporting.* The project in UNDP country offices is the building-block of programme formulation at the country, regional and global levels in support of the strategic plan. The country programme action plan and the annual work plan constitute the legally binding obligation and responsibilities of UNDP, agreed upon with governments and respective implementing partners, subject to receipt of the necessary funding. UNDP will provide support to ensure the quality assurance of project design and implementation of *regular monitoring and evaluation activities, as well as reporting*, including management responses to the evaluation reports. The National Coordinating Agency signs the Country Programme Action Plan.

23. *Managing key audit priorities at the office and headquarters levels.* Fifteen top audit priorities identified by UNDP management in 2006 are used for monitoring by the Operations Group chaired by the Associate Administrator. It also provides UNDP the mechanism to explore alternative strategies to address the recurring systemic issues underpinning these audit observations. The 'regional shared accounting service centre' concept is one example of how UNDP is addressing structural and systemic issues in providing accounting support services to offices lacking that capacity, either temporarily or on a long-term basis.

Enterprise risk management and security management.

24. Risk management is an essential element of good corporate governance and organizational accountability. UNDP has therefore developed a corporate 'enterprise risk management' framework (Atlas) that builds upon the growing body of knowledge about risk by consolidating and aligning UNDP risk management procedures and tools. It includes processes to embed Atlas into UNDP planning, operational and management practices. Furthermore, it integrates all elements of existing UNDP risk management activities (in areas such as procurement, security, finance, governance of information and communications technology, country office risk assessments by the Office of Audit and Performance Review (OAPR) and UNDP/Global Environment Facility) into one comprehensive system that enhances effective strategic planning and decision-making.

25. The 'enterprise risk management' system is being mainstreamed and will be rolled out in 2008. This will require country office senior managers to be accountable for risk management to their regional bureaux; senior managers of regional bureaux to be accountable to the Associate Administrator; and senior managers of all other headquarters units to be accountable to their respective bureau management or directly to the Associate Administrator.

26. *Financial (organizational) disclosure.* All relevant documentation on UNDP budgets for management and programme activities approved by the Executive Board are available at <http://www.undp.org/execbrd>. The financial report and audited financial statements, the annual review of the financial situation and the annual report of the office of audit and performance review of UNDP are accessible to Member States and the public.

27. *Procurement disclosure.* UNDP espouses the principles of transparent procurement and fair competition. It is prescribed that all notices for contracts in excess of USD\$100,000 are posted on the public web site.

28. *Public information disclosure.* The UNDP public disclosure policy is accessible through www.undp.org. Upon request, information about UNDP operations is made available within 30 business days. By the end of 2007 all UNDP country office websites will be required to meet a minimum standard, including documentation relevant to country-level operations. It is expected that this might

initially require assessment and guidance from headquarters so as to ensure data availability and quality in the course of 2008.

Staff management

29. The United Nations Charter, and article I of the Staff Regulations of the United Nations and Staff Rules, form the basis for ethical conduct in UNDP. The following paragraphs outline key staff accountability policies, procedures and instruments.

30. *Staff performance plan and unit work plan.* The Results and Competency Assessment is the primary performance planning, assessment and management tool of UNDP for 'results and competencies', including learning. It has been enhanced to enable staff to relate their goals and performance indicators more closely to the unit work plan and key business results areas. The *Career Review Group* in each UNDP office is responsible for performance review and development coaching.

31. *Global learning management system and investment in staff professional certification programmes in functional areas.* UNDP is leveraging its *global learning management system* to support staff development and self-paced online learning by UNDP staff in all offices. Our 'Virtual Development Academy' programme connects staff around the world in a virtual learning environment for knowledge exchange and learning. Since 2005, UNDP has launched *practice-based professional certification programmes*, which provide staff with the opportunity to be externally certified in key business areas in UNDP.

32. *Anonymous, confidential reporting of allegations of sexual harassment, abuse of authority or fraud in place.* OAPR supports a *hotline* for anonymous and confidential reporting. OAPR is involved in investigations, and, based on its findings, the UNDP Legal Support Office recommends disciplinary action for staff who violate the code of conduct. Instances of misconduct have been addressed through the *UNDP disciplinary procedure*.

33. *Protection policy and procedures in place.* UNDP protects staff who report allegations of wrongdoing from retaliation or other harm. UNDP relies on the principles enshrined in the Staff Regulations of the United Nations and Staff Rules to discipline staff who retaliate against those who have reported allegations of wrongdoing or cooperated in investigations. Specific protection from retaliation was first codified in 2005, when UNDP issued its guidelines on dealing with harassment, sexual harassment and abuse of authority.

34. *Policy and training on UNDP code of ethics being formalized.* An interactive online ethics training module is being piloted in 2007. It deals with personal integrity, integrity in the workplace, integrity in client relations with Member States, suppliers, the public, the media and reporting allegations of staff wrongdoing. A role-based learning plan is being developed to ensure personalized training. The Legal Support Office provides advice on a case by case basis on the application and interpretation of the Staff Regulations and Rules of the United Nations and other human resources-related policies.

35. *Financial disclosure of senior officials and declaration of impartiality for staff with procurement and treasury functions.* The UNDP Administrator issued the *policy on financial disclosure* in 2007, requiring critical staff to file financial disclosure statements at the D-1/L-6 level and above, including procurement officers; staff with buyer and approver roles in Atlas; staff whose duties relate to the investment of assets; staff with direct access to confidential procurement or investment information; the Chairperson (and alternate) of the Advisory Committee on Procurement at headquarters; and the Contracts, Assets and Procurement Committee in country and regional offices. Staff at the Assistant Secretary-General level and

above adhere to the disclosure policy stipulated by the United Nations Secretariat for senior officials.

36. *Dissemination of information regarding disciplinary cases involving UNDP.* UNDP believes that transparency is a crucial feature of any justice system. With that in mind, since 2001 the Administrator has released the results of the previous year's disciplinary cases concerning staff members from UNDP, UNFPA and other organizations in which UNDP plays a role in staff administration. Sharing this information is intended to increase awareness of how our internal justice system works, as well as the standards of conduct and levels of accountability expected of all staff.

37. *Due process granted in disciplinary and appeals procedures.* Due process, which is available to staff members at different levels of the internal justice system, includes the following: (a) administrative review; (b) Joint Appeals Board; (c) United Nations Administrative Tribunal; and (d) Disciplinary Committee.

38. *Grievance procedure available outside formal channels.* The Office of the Joint Ombudsperson provides an informal grievance procedure that enables individuals to contact the Ombudsperson, at any stage, for help on any work-related problem where a perspective outside formal channels would be helpful. Guided by the highest principles of ethics and by a concern for and commitment to justice and fairness, the Ombudsperson fosters a harmonious, productive work environment, thereby contributing to greater organizational and operational efficiency. The annual report, submitted to the Administrator and circulated to all staff and management, reflects the type and number of grievances handled and contains recommendations for changes in policies and procedures, in particular where systemic issues have contributed to the problem. The work of the Office of the Joint Ombudsperson, commended by the Redesign Panel, has established a firm basis for continued effective coverage of the funds and programmes in the integrated ombudsman office in pursuance of General Assembly resolution 62/261 on the internal justice system.

C. Monitoring and reporting mechanisms

39. A number of programmatic, operational, audit and evaluation arrangements exist in UNDP to support reporting on the updated strategic plan.

(a) *Key existing stakeholders monitoring and reporting mechanisms in place in UNDP.* The key stakeholders' reports include the annual strategic plan report of the Administrator on performance results – including review of the recommendations of the Joint Inspection Unit – as well as others, such as the report on financial situation, the audit reports (internal and external) and the evaluation report, programming arrangements and the biennial support budget.

(b) *Internal monitoring and reporting mechanisms in place in UNDP.* Internal monitoring tools consist of electronic reporting aimed at helping managers perform their duties and informing decisions on a real-time basis. Those mechanisms include, inter alia, tools to measure client satisfaction, organizational efficiency, learning and growth, financial resources and programme quality, and various surveys.

(c) *Programme results and performance information reporting.* In decision 2006/9 the Executive Board decided that all relevant country programme results and performance information would be consolidated and reported to the Board at the end of the country programme cycle. It will include an analysis of results achieved, relevant lessons learned and best practices noted. In addition,

summaries of independent evaluation of outcomes and audit shall be part of the new draft country programme documents or any extension of a current programme.

(d) *Reporting mechanisms.* The performance-based indicators for monitoring the three dimensions of UNDP work: development, coordination, and management will be presented to the Executive Board in its annual session 2008. This is the basis for a monitoring and evaluation framework of the strategic plan. Tools already in place will be consolidated and refined to establish an integrated, coherent system to support results management throughout the organization, aligned with the strategic plan. The information management system will enable the organization to access, interpret and analyse the same set of data, thereby enhancing transparency and effectiveness.

40. UNDP will provide the Executive Board, at its annual session 2010, with a comprehensive and analytical results-based mid-term review of the updated strategic plan. This review will not only report on management, coordination and development outputs but will analytically assess achievements in terms of development outcomes, verified with survey and evaluation data, and identify lessons learned and best practices. In addition, UNDP will include in the Administrator's annual report to the annual session⁴ of the Executive Board updates on the operationalization of the updated strategic plan.

III. UNDP oversight policy

41. This chapter responds to decision 2007/29, in which the Executive Board requested UNDP, UNFPA and UNOPS, respectively, to submit for consideration and approval at the first regular session 2008 an "oversight policy that also defines the concepts of accountability and transparency as well as disclosure and confidentiality" in the management of the operational activities each organization. In addition, the Board requested UNDP to clarify the role of the Audit Advisory Committee, including its independence, relationship with the Executive Board, and the appointment process contained in the oversight policy.

42. External and internal oversight as described in this section, are central to the enhanced, integrated UNDP accountability system.

43. The oversight function has traditionally being associated with legislative and financial accountability. The scope of oversight has been enlarged over time to address controls regarding aspects of risks, relevance/importance, effectiveness, efficiency, and impact of operations.

44. Oversight⁴ constitutes a set of activities in which independent internal and external bodies provide assurances to the Administrator, the Executive Board and stakeholders that there are functional systems of internal controls ensuring that:

⁴ Oversight (extracted from United Nations Evaluation Group report 2007, based on A/60/883/Add.1)

- "Oversight is a key activity in governance. The Assembly of Member States of the entity would have oversight over the governing body, the governing body oversight over management, senior management oversight over lower level management as well as all operational activities of the entity.
- The primary principle of oversight is the separation of duties between executive management and the governing body or bodies.
- Oversight activities consist of monitoring, evaluating and reporting on the entity's performance. It also encompasses the auditing, internal and external, of the entity's financial results and effectiveness of its internal control and cases of fraud or malpractice.

- (a) the organizations are run in accordance with legislative mandates (legislative accountability);
- (b) the funds provided are fully accounted for (financial accountability);
- (c) the activities are conducted in the most efficient, effective manner, and programme overlaps, duplications and waste of resources are avoided, as well as ensuring that results are achieved (operational accountability); and
- (d) staff and other officials adhere to standards of professionalism and ethics (ethical accountability).

A. Oversight responsibilities

45. **Oversight policy** is understood to provide the Executive Board and the Administrator with analysis and recommendations to allow them to execute their respective oversight functions.

The Executive Board

46. General Assembly resolution A/RES/48/162 describes the responsibility of the Executive Board as “providing inter-governmental support to and supervision of the activities of each fund or programme in accordance with the overall policy guidance of the General Assembly and the Economic and Social Council, in accordance with their respective responsibilities set out in the Charter, and for ensuring they are responsive to the needs and priorities of recipient countries.”

47. The responsibilities are further elaborated, in paragraph 22 of A/RES/48/162, as being to “give guidance ... on the work of each organization”, “to ensure that activities and operational strategies ... are consistent with the overall policy guidance set forth by the Assembly and the Council”, to “monitor performance”, to “decide on administrative and financial plans and budgets”, to “encourage and examine new programme initiatives” and to “submit annual reports to the Council”.

48. The Executive Board, in exercising its own accountability and oversight responsibilities effectively *at the strategic level* requires *independent objective assurances and reports* that decisions made at the policy level are implemented, resources are properly and ethically used for the purposes provided and that management is successfully fulfilling the objectives set by the policymakers.

The Administrator

49. The Administrator is responsible for the operations of UNDP and is accountable to the Executive Board for all phases and aspects of the management and implementation of UNDP activities, including accountability for the associated funds and programmes.

B. Institutional arrangements

50. Oversight includes:

- (a) Measures taken to ensure that all programme activities and organizational units of the organization are subject to independent oversight in accordance with professional standards and best practices;

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- Oversight is carried out through processes and procedures designed by the organization's executive management and approved by the governing body.
 - Oversight ensures management accountability for providing the direction planning and monitoring of policies and procedures, financial controls plus follow-up and implementation of audit recommendations.”

(b) The results of the independent oversight work communicated to the relevant and concerned parties regularly as prescribed, with mutual accountability in so doing; and

(c) Management action taken on implementation of oversight recommendations.

51. Oversight⁵ is organized institutionally through:

(a) Independent external oversight (United Nations Board of Auditors and Joint Inspection Unit) and the Audit Advisory Committee; and

(b) Independent internal oversight (Office of Audit and Performance Review and Evaluation Office).

B.1 Independent external oversight

The United Nations Board of Auditors and the Joint Inspection Unit

52. The Board of Auditors, as the external auditor of the accounts of the United Nations Programmes and Funds – in accordance with article VII of the United Nations Financial Regulations and the annex thereto – which also governs UNDP, conducts independent audits and issues a report to the General Assembly on: (a) the audit of the financial statements and relevant schedules relating to the accounts of UNDP for the financial period; (b) compliance of transactions with the Financial Regulations and legislative authority; and (c) such information as the Board of Auditors deems necessary with regard to matters of the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the organisation.

53. The Joint Inspection Unit, established by the General Assembly, is empowered to investigate into all matters bearing on the efficiency of services and the use of funds in the United Nations system. Its reports are submitted to the General Assembly and the governing bodies of the specialized agencies, funds and programmes of the United Nations.

The Audit Advisory Committee

54. The role of the Audit Advisory Committee, as an independent body, is to assist the Administrator in fulfilling his responsibilities regarding financial management and reporting; internal and external audit matters; risk management arrangements; and systems of internal control and accountability. The primary role of the Committee is to advise the Administrator on the conduct of management responsibilities, taking into consideration the Financial and Staff Regulations and Rules as well as policies and procedures applicable to UNDP and its operating environment.

55. The Administrator appoints the five members of the Audit Advisory Committee; all members are external to UNDP and among the five members a Chairperson is designated by the Administrator. A term of office for members is two years renewable once.

56. It is proposed that the terms of reference of the Audit Advisory Committee be modified along the following lines:

(a) Assess the work programme of OAPR and the resources required to implement the work programme and making recommendations to the Administrator in that regard;

(b) Include an important role in the appointment and dismissal of the Director of OAPR (the Audit Advisory Committee has been involved in the task of appointing the new OAPR Director); and

(c) Present its annual report as an official document to the Executive Board.

B.2 Independent internal oversight

57. The Director of Office of OAPR and Director of Evaluation Office report to the Administrator with the purpose of independently advising management. Each office reports to the Board independently on its findings and concerns.

Office of Audit and Performance Review

58. The *internal audit* responsibilities of OAPR are prescribed in Financial Rule 103.02. With due regard for the need for full operational independence of the audit function, the Director of OAPR: (a) decides on the annual internal audit plan; (b) submits reports to senior management; and (c) submits an annual report to the Executive Board on its activities, systematic weaknesses and problems identified, and any other significant issues, as deemed appropriate.

59. The investigation responsibilities of OAPR functions through hotlines and other report systems to enable staff and others to report allegations or instances of misconduct, wrongdoings, malfeasance, fraud, corruption, mismanagement, abuse of authority, harassment and other such cases. Investigations are conducted independently and findings are submitted to the Legal Office for appropriate action.

60. A 'charter of OAPR', incorporating the principles mentioned above, is being finalized, taking into account recommendations from a quality assurance review of OAPR.

Evaluation Office

61. The mandated responsibility of the Evaluation Office is to support the Executive Board in its oversight and the Administrator in his substantive accountability. Evaluation also contributes to organizational learning through provision of systematic, independent assessment of the results, effectiveness and impact of the substantive activities of the programme, including the special purpose funds under the Administrator's responsibility.

62. The responsibilities of the Evaluation Office as custodian of the evaluation function, prescribed in the Evaluation Policy (DP/2006/28) include: (a) prepare and periodically review and update the UNDP policy for evaluation; (b) submit its annual plan to the Executive Board; (c) report annually to the Executive Board on the function, findings and recommendations of evaluations, on compliance, quality assurance, and follow-up to evaluations conducted by UNDP and its associated funds and programmes; (d) maintain a system to record management responses to all evaluations; and (e) alert senior management to emerging evaluation-related issues of corporate significance.

63. Management responses are prepared for all evaluations.

B.3 Professional standards for internal independent oversight

Audit standards

64. Audit in UNDP adheres to the International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Audit (IIA), which “provide guidance for the conduct of internal auditing at both the organizational and individual auditor levels. They are the result of careful study, consultation, and deliberation about the basic principles for providing internal audit services” (IIA website). In subscribing to the IIA standards, OAPR is expected to uphold to a code of conduct as well as attribute performance standards by which its work will be performed and reported on.

65. Quality assurance is undertaken through independent periodic peer reviews consistent with professional standards and practices of the Institute of Internal Auditors to assess the OAPR mandate, structure, activities and resources against best practices in the internal audit industry.

Investigation standards

66. The investigation function in UNDP is performed in conformity with the Uniform Guidelines for Investigations endorsed by the 4th Conference of International Investigators.

Evaluation standards

67. Evaluation in UNDP is governed by the Evaluation policy (DP/2006/28) approved by the Executive Board in 2006, which is in line with United Nations Evaluation Group Norms and Standards for Evaluation in the United Nations. Those standards relate to independence, intentionality, transparency, ethics, impartiality, quality, timeliness and utility. The agenda for evaluation is approved by the Executive Board, and the Director of the Evaluation Office is solely responsible for the content of reports.

68. Quality assurance is undertaken by the Evaluation Office to set evaluation standards for planning, conducting and using evaluations, developing and disseminating methodology and establishing the institutional mechanisms for applying the standards

Ethical standards

69. The UNDP legal framework for non compliance with United Nations standards of conduct provides a comprehensive expression of the application of United Nations Staff Regulations 10.1 and 10.2, and chapter X of the Staff Rules, to UNDP, and updates and replaces the accountability and disciplinary measures and procedures that had been in effect since January 2004. The updated legal framework provides: (a) Expanded provisions defining the rights and obligations of staff in reporting wrongdoing, including regarding whistleblower protection and the responsibilities of the Ethics Advisor in that regard; (b) A more detailed definition of the delegation of authority, including the authority of the Associate Administrator in the application of the disciplinary process and measures; and (c) Clarification of the due process rights of staff members in the course of an investigation and upon its completion.

70. The ethics function in UNDP was established effective 1 December 2007. The function will be fully in line with the Secretary General’s bulletin “United Nations system-wide application of ethics: administered organs and programmes”, issued on 3 December 2007.

Risk

71. OAPR formulates country office and headquarters unit audit plans based on quantitative and qualitative analysis and assessment of key audit risks (DP/2007/37). The risk assessment process consists of: (a) risk identification, (b) risk measurement, and (c) risk prioritization. The specific risk scoring is carried out by OAPR with the participation of regional bureaux/country offices, as appropriate.

72. Two types of factors are used for the risk assessment of UNDP country offices.

- (a) Quantitative factors (measurable and objective):
 - (i) Total programme delivery by country office;
 - (ii) Total programme resources allocation;
 - (iii) Number of months of strategic reserve;
 - (iv) Total office budget allocation;
 - (v) Number of authorized personnel;
 - (vi) Number of projects;
 - (vii) Number of purchase orders; and
 - (viii) Time elapsed since last internal and/or external audit.
- (b) Qualitative factors (not quantifiable, but having an influence on risks in the actual operations and in the management of resources):
 - (i) Country offices in special development or political situations;
 - (ii) Turnover at country office senior management level;
 - (iii) Stakeholders' concerns;
 - (iv) Anticipated changes in country office portfolio;
 - (v) Results of NGO/NEX evaluations and outsourced DEX audits;
 - (vi) Results of recent investigations by OAPR; and
 - (vii) Last OAPR audit rating.

B.4 Disclosure of internal independent oversight reports

Audit disclosure

73. The High-Level Committee on Management, on 20-21 September 2007, endorsed the recommendation of the representatives of Internal Audit Services of the United Nations on disclosure of internal audit reports, which favoured the option that "internal audit reports will be disclosed to Members States, subject to conditions/criteria defined in a policy that should not be applied retrospectively. This option could include giving Member States the possibility to read internal audit reports in the Internal Oversight Service office, and ask questions to the Chief Audit Executive as needed. Audit/Oversight committees could provide a useful conduit through which to draw the attention of the governing bodies to any internal audit reports of particular concern. Notwithstanding the options above, the standards and code of ethics contained in the Professional Practices Framework of the Institute of Internal Auditors (IIA) would allow in exceptional circumstances⁵, the chief audit executive to bring a report to the attention of Member States".

74. UNDP has actively contributed to this discussion and sees value in providing access to information while recognizing the primary value of audit reports as a management tool.

⁵ 'Exceptional circumstances' refers to possible instances when senior management at the Administrator and Associate Administrator level have breached UNDP regulations or internal controls or have caused a situation that is detrimental to UNDP. In such cases the Director of OAPR has the authority and discretion to report the matter directly to Member States in accordance with IIA standards.

75. Following approval of the High-Level Committee recommendation by the Chief Executives Board, UNDP intends to implement the decisions under the following modality: The Administrator would make a particular independent audit report available on the basis of a specified request made by a Member State and would delegate the modalities of implementing the disclosure policy to the Associate Administrator. The Member State would be entitled to review the report in the offices of OAPR and make such notes as might be necessary, but would not be permitted to make copies of the report. In the spirit of cooperation among member countries, the Member State to whom an independent audit report has been made available would make use of the information in a judicious way and refrain from taking actions that would result in general disclosure of the information contained therein. In making the report available, the need would be taken into account to maintain confidentiality with respect to issues that might affect staff, third parties or a country government/administration; or to avoid compromising pending action. The modality would not be retroactive, and would come into force pursuant to approval by the Executive Board of the proposed UNDP oversight policy set forth in the present document.

Evaluation disclosure

76. All evaluations and their management responses are publicly available.

C. Oversight policy and the Executive Board

77. The Executive Board adopts its annual work plan at the first regular session each year. A draft work plan, containing items and reports to be considered by the Board, has been presented for discussion at the second regular session the previous year. The proposed agenda items reflect the role of the Executive Board as outlined in paragraph 44 to 46 above.

78. Certain standing items and reporting requirements contained in the agenda of the Executive Board which are derived from Governing Council and Executive Board decisions:

First regular session

- (a) Implementation of recommendations of United Nations Board of Auditors
- (b) Report to ECOSOC

Annual session

- (a) Annual report of the Administrator
- (b) Joint UNDP/UNFPA report on the recommendations of the Joint Inspection Unit
- (c) Annual report and plan on evaluation
- (d) Annual internal audit and oversight report
- (e) Annual report of the Audit Advisory Committee
- (f) Annual report of the United Nations Board of Auditors
- (g) Comment on draft country programme documents

Second regular session

- (a) Annual review of the financial situation
- (b) Information on United Nations system technical cooperation expenditures
- (c) Approval of country programme documents
- (d) Programming arrangements
- (e) Report of the ACABQ on UNDP estimates for the biennial budget (biennially)

D. Strengthened capacity for the oversight and assurance functions

79. UNDP intends to strengthen its audit and evaluation functions towards the Joint Inspection Unit recommendations on broad funding levels for oversight functions of United Nations organizations, contained in report JIU/REP/2006/2. In that context the biennial support budget, 2008-2009, contains specific proposals for consideration by the Executive Board.
